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

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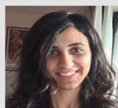

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Top News - Oil

US crude oil exports to gain tail winds from Saudi July output cut

U.S. crude oil exports, already running close to a record level hit in March, should get a further boost next month from deep production cuts in Saudi Arabia, analysts said on Monday, noting that this will also further deplete U.S. crude inventories, which have been hovering near historic lows.

Saudi Arabia, de facto leader of oil producer group OPEC, said on Sunday it would drop its production by about 10%, or 1 million barrels per day (bpd), to 9 million bpd in July. It said it might sustain the cut to support oil prices that have dropped due to worries about a potential economic recession.

The move opens the door for modest gains in U.S. and Latin American shipments to Europe and Asia, analysts said, and gives U.S. producers new confidence that Saudi Arabia will provide a price floor should a recession clip demand.

"This could and should incentivize higher U.S. exports, which were looking like they would be under downward pressure given the looming peak of summer refining activity," said Matt Smith, an oil analyst at data provider Kpler.

U.S. oil exports touched a record 4.5 million bpd in March with China's growing oil purchases and competitive U.S. pricing lifting demand. The exports are about a third of U.S. production, even as the country's crude oil stocks are down near the low levels recorded at 815 million barrels.

Saudi Arabia's willingness to deepen its output cuts - after a earlier 500,000 bpd trim effective in May - will dig into the Kingdom's exports, which typically fall in summer.

"It's significant that they cut in summer (when) Saudi domestic demand is at a peak. To me, it says they'll cut exports," said Paul Sankey, an independent analyst at Sankey Research in New York.

U.S. oil benchmark and global Brent benchmark each climbed about $1 per barrel on the news. Brent traded at about $77.28 on Monday, below the about $80 per barrel that Saudi Arabia needs to fund its government budget.

U.S. shale oil production has been inching higher all year, and is forecast to hit 5.71 million bpd this month. But its relatively slow rate of growth has left the U.S. largely out of OPEC's calculations for the latest cuts.

OPEC's "decision supports some modest price increase near term and may bring that long term increase forward a bit," said Mike Oestmann, chief executive of Tall City Exploration, a Texas shale firm. "But the near term impact (on drilling) is moderate at best," he added.

Uncertainty around Russia's output and exports, high freight rates and a narrow spread between WTI and Brent prices that weakened the economics of shipping U.S. crude abroad in the last couple of months could, however, limit exports.

Saudi Arabia raises July flagship crude price for Asia to 6-month high

Saudi Arabia, the world's top oil exporter, raised the prices of its flagship crude Arab Light to Asian buyers in July to a six-month high, following its pledge on Sunday to make a deep cut to its production next month.

The official selling price (OSP) for July-loading Arab Light to Asia was increased by 45 cents a barrel from June to $3.00 a barrel over Oman/Dubai quotes, according to a statement issued by state oil giant Saudi Aramco.

The price hike came after Saudi Arabia unexpectedly announced its biggest reduction in years of an extra output reduction of 1 million barrels per day (bpd) in July, bringing the kingdom's output to 9 million bpd next month from around 10 million bpd in May.

That was on top of a broader OPEC+ agreement to extend the current voluntary cuts to end-2024 from end-2023. A Reuters survey in late-May showed that the market had expected a bigger price slash of more than $1 a barrel for July Arab Light to reflect the sluggish market prices and thin refining margins.

The more expensive Saudi oil prices could prompt refiners to seek for cheaper alternative supplies from the regional spot market or arbitrage cargoes from further afield. Meanwhile, Russian crude oil continued flooding into Asia at steep discounts. In May, China and India brought in all-time-high volume of Russian crude, according to preliminary assessments from ship trackers.

Saudi Arabia also raised the July OSPs of other grades to Asia, all by 45 cents from the June levels. For the second straight month, price for Arab Extra Light is set lower than Arab Light, according to the price document.

For other regions, the top oil exporter increased its July Arab Light OSP to northwest Europe by 90 cents to $3.00 a barrel above ICE Brent.

Meanwhile, the OSP to the United States was also raised by 90 cents in July from the prior month at $7.15 versus ASCI.

Top News - Agriculture

India's palm oil imports hit 27-month low, buyers pick cheaper soft oils - dealers

India's palm oil imports sank to a 27-month low in May as buyers cancelled expensive cargoes of the edible oil and replaced them with cheaper soyoil and sunflower oil, six dealers told Reuters on Tuesday.

Palm oil imports by India fell to 441,000 tonnes last month, down 14% from 510,094 tonnes in April, according to average estimates from the dealers. May imports were the lowest since February 2021, the dealers added.

The drop in purchases by the world's biggest importer of vegetable oils could weigh on palm oil prices, which are already trading near their lowest level in 30 months.

India buys palm oil mainly from Indonesia, Malaysia - the top two producers - and Thailand, while it imports soyoil and sunflower oil from Argentina, Brazil, Russia and Ukraine.

Price-sensitive Asian buyers typically rely on palm oil because of the low cost and quick shipping times.

But the edible oil started trading at a premium to soyoil and sunflower oil over the past few months, prompting buyers to shift to the cheaper soft oils, said Sandeep Bajoria, CEO Sunvin Group, a vegetable oil brokerage and consultancy firm.

In April, buyers opted to cancel large amounts of palm oil purchases for May shipments for the first time in many years.

India's average monthly palm oil imports in the first six months of the 2022/23 marketing year that started on Nov. 1 were 818,203 tonnes, according to the Solvent Extractors' Association of India, up 52% from a year earlier. The trade body is likely to publish its May import data by mid-June.

India's sunflower oil imports in May jumped 28% from a month ago to 319,00 tonnes, while soyoil imports rose 10% to 290,000 tonnes, according to an average estimate from the dealers.

"Palm oil has been losing market share for the past few months and is unlikely to regain it unless it becomes competitive, said Rajesh Patel," managing partner at GGN Research, an edible oil trader and broker.

COLUMN- U.S. corn conditions suffer worst tumble since 2020 as dryness expands -Braun

Parts of the U.S. Corn Belt have been historically dry over the last month, pressuring both corn and soybean health and offering an early challenge to the government's record yield forecasts.

Data from the U.S. Department of Agriculture on Monday afternoon showed 64% of the U.S. corn crop in good or excellent (GE) condition, down from 69% a week earlier and below the lowest trade guess of 65%.

That marked the largest weekly decline in U.S. corn health since mid-August 2020, and Crop Watch corn conditions earlier on Monday had also reflected the largest drop since August 2020.

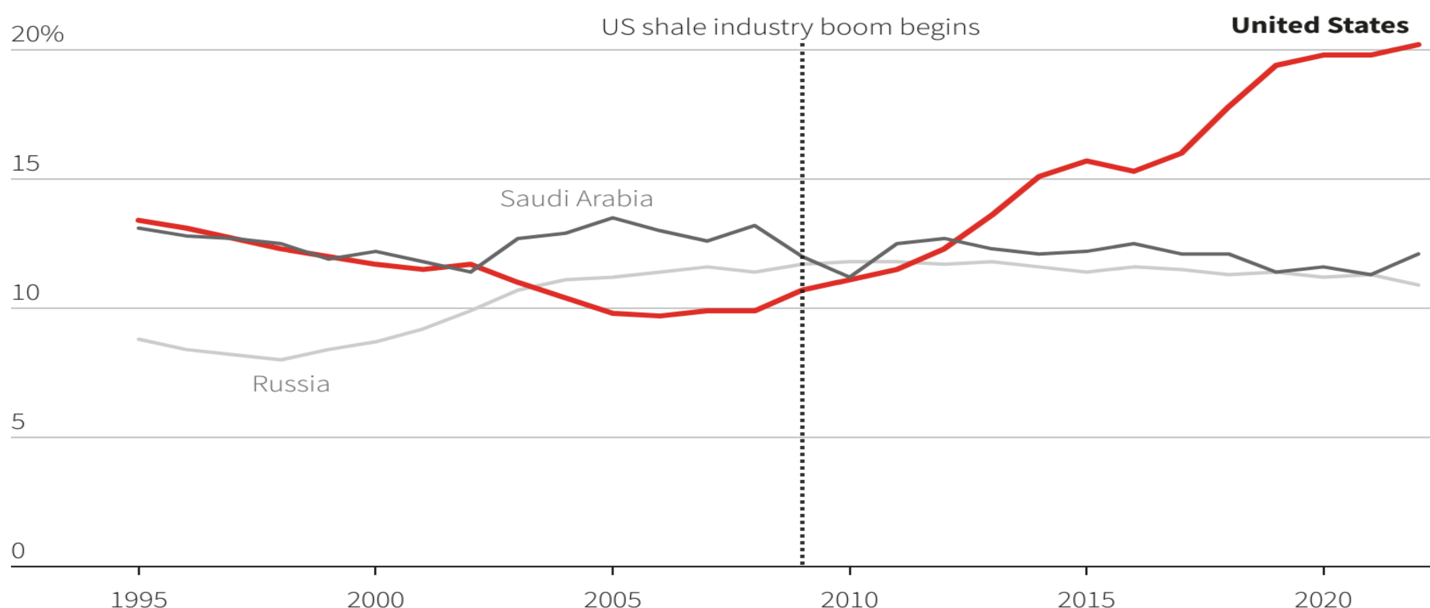
U.S. corn conditions had not fallen 5 percentage points or more at this time of year since 2012, when severe drought eventually cut corn yields by a quarter. In fact, aside from that one week in August 2020, a fall of 5 or more points had not been observed in any other week since 2012.

Corn health in early June 2021 fell by 4 points in two consecutive weeks, followed by a 3-point drop in the

month's third week to 65% GE. Near-record low ratings in the drought-stricken Dakotas weighed, though corn health in top grower Iowa lost 14 points in June's second week due to extended dryness.
Timely rains and moderate temperatures in July and August 2021 allowed for a record national corn yield, so the 2023 crop is not yet out of the game. But it needs to rain soon, and that is unlikely at a widespread level for at least another week, so conditions may fall again before any recovery is possible.
Prior to 2012, U.S. corn condition declines of 5 points or more during June were uncommon. The last three instances occurred in 2007, 2001 and 1994, though the crop was initially rated higher in those years versus 2023.
Corn conditions debuted at 59% GE in early June 2019 due to a waterlogged start, but 64% GE is otherwise the lightest for early June since 63% in 2013 and below the year-ago 73%.
Corn health in No. 2 grower Illinois featured the most concerning trend in the latest week, down 19 points to 50% GE, the state's lowest for the week since 2002. The week's five-year average is 70%.

SOYBEANS
Initial U.S. soybean conditions came in at 62% GE Monday, below both the average trade guess of 65% and the five-year average of 67% for the season's first rating.
Soy conditions began at 54% GE in late June 2019, but 62% is otherwise the lowest initial soy rating since 57% in 2008. Last year's initial score of 70% was issued a week later than this year.
Top bean grower Illinois was 51% GE as of Sunday, most recently comparable with 50% one week later in 2012. Nebraska at 58% GE was 21 points below the same week a year ago, before drought severely cut the state's yields.
Similar to U.S. corn yields, soy yields are not typically best when early health conditions are low, but there is more variation and potential leeway.
The last two times U.S. soybean yield was above the long-term trend when initial conditions were 62% GE or worse was in 2005 and 1997, though the starting 51% in 1992 gave way to a record yield more than 7% above trend.
Soy conditions were 73% GE by mid-July 1992, though that was an unusual year. July 1992 across the Midwest was the second wettest and third coolest in the last 128 years, following the Midwest's fourth driest May-June period at just 56% of normal precipitation.
Many climatologists consider 1992 a "year without a summer" due to unusually cool temperatures across the Northern Hemisphere, crediting volcanic ash from the mid-1991 eruption of Mount Pinatubo in the Philippines as the possible culprit.

Chart of the Day



Top News - Metals

COLUMN-LME aluminium stocks battle comes with a Russian twist: Andy Home

There was another raid on London Metal Exchange (LME) aluminium stocks last week. While headline inventory fell by a marginal 1,475 tonnes over the holiday-shortened week, available stocks slumped by 19% thanks to 83,875 tonnes of net cancellations. It was the second swoop on exchange stocks of aluminium in the space of a month after the mass cancellation of 132,700 tonnes of metal on May 10. LME on-warrant stocks have fallen from over 500,000 tonnes in the middle of April to a four-month low of 324,650 tonnes. LME time-spreads have been turbulent, the benchmark cash-to-three-months period flexing out to a backwardation of $42 per tonne on Thursday before snapping back to a contango of $29 at the Friday close. Aluminium trading in London has long been characterised by such bouts of volatility as powerful traders battle it out across visible inventory and time-spreads. But this time around the turbulence comes with a distinctly Russian twist.

RISING RUSSIAN STOCKS

The amount of Russian aluminium in the LME warehouse network has grown significantly over recent months as many Western users self-sanction by opting for other suppliers. Russian-brand aluminium stocks totalled 256,125 tonnes at the end of April, accounting for just over half of the LME's non-cancelled tonnage at the time.
The figure has grown from 93,750 tonnes at the end of January and 49,225 tonnes at the end of March 2022, when the LME figures covered all Eastern European brands. It's not the first time that Russian metal has washed through the LME warehousing system but the scale of the recent build relative to the more modest increase in overall LME inventory suggests less market surplus than specific problems marketing Russian metal.
The task became a lot harder after the United States imposed penal import duties of 200% on Russian aluminium in March.
Some Russian metal has been displaced into China. China imported 261,000 tonnes of Russian aluminium in the first four months of this year, accounting for a dominant 81% of total inbound shipments.
However, it is clear that some of Russia's four million tonnes of annual production has made its way to the market of last resort.

STOCKS BATTLE

LME on-warrant stocks at the end of April largely comprised Russian and Indian brands, representing 52% and 47% of the total respectively. Most of the LME stock was located at the South Korean port of Gwangyang and Malaysia's Port Klang, a distribution which hasn't changed much in the interim. It's been widely reported that the flow of metal into Gwangyang, a previously little-used storage point for aluminium, has been down to the warranting of Russian metal by Glencore, which has a long-term off-take agreement with Russia's Rusal. The Indian metal, by contrast, has largely flowed into Port Klang, a long-standing hub for surplus aluminium.
It's noticeable that most of the recent cancellation activity has been at Port Klang, where on-warrant stocks have dwindled to 50,975 tonnes, the lowest level since 2015, and cancelled stocks have grown to 222,000 tonnes. Gwangyang, by contrast, has seen only a modest 17,175 tonnes of net cancellations since the start of May and currently holds 229,825 tonnes of on-warrant stocks, accounting for 69% of the total live tonnage in the LME warehouse system. The hits on Port Klang but not on Gwangyang suggest heightened competition for non-Russian brands of aluminium. It's by no means certain that the metal cancelled will be loaded out for physical delivery but it's very clear that someone didn't want someone else to have the remaining non-Russian metal.

TURBULENCE AHEAD?

The aluminium battle has abated judging by the collapse of time-spreads since Friday. The outright aluminium price has been little affected by the gyrating front part of the curve. Three-month metal, currently trading at $2,250, is still ensconced in its recent $2,200-2,300 range. However, the calm may not last for long.
Aluminium's supply-demand picture has deteriorated this year, largely due to an underwhelming post-lockdown recovery in China's manufacturing sector.
More surplus metal, both Russian and Indian, is likely to hit the LME in coming weeks, setting the stage for more clashes between trading houses over who gets which brands. This is also a headache for the LME itself.
The exchange decided last year against stopping fresh inflows of Russian metal, arguing that the metal remains officially unsanctioned and many consumers, particularly Asian, intend to carry on using it.
The LME can take some heart from the fact that almost 60,000 tonnes of aluminium in Gwangyang have been cancelled and physically loaded out since the start of this year. But LME-registered inventory at the Korean port has still mushroomed from just 24,025 tonnes at the start of 2023 to 235,850 tonnes and it now accounts for most of the live stocks. The danger is that the LME aluminium contract becomes a de-facto Russian metal contract trading at a discount to the non-Russian market.
It's not happened yet but the latest LME stocks tussle suggests an evolving differentiation between Russian and non-Russian components of the visible inventory picture.

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Germany targets $2.1 bln in funding for Thyssenkrupp green steel plant

Germany is planning to make around 2 billion euros ($2.1 billion) available to help fund a green steel plant that Thyssenkrupp aims to build at its base in Duisburg, one of the struggling conglomerate's key turnaround projects. The 2 billion euros, unveiled by Germany's Economy Ministry on Monday, include 700 million euros of funds pledged by the German state of North Rhine-Westphalia, where Thyssenkrupp's headquarters is located.
It also marks a major commitment to support one of Germany's industrial icons. Thyssenkrupp depends on external funds to pay for decarbonising steelmaking, which is one of the most polluting industrial production techniques. "To this end, we are in close contact with the European Commission. Because one thing is clear: we also need steel production in Germany and Europe in the future," a ministry spokesperson said in an emailed statement to Reuters. Economy Minister Robert Habeck on Monday travelled to Essen and Duisburg to hold talks with Thyssenkrupp's management and labour representatives after weeks of criticism over what workers fear is lacklustre backing by Berlin. While welcoming the public expression of support by Berlin, Thyssenkrupp Chief Executive Miguel Lopez pointed out that the EU Commission still needs to approve the planned aid package but that the company needed clarity quickly. "We must not lose any time in this process," he said. Under its hydrogen-based climate strategy for steel production, dubbed tkH2Steel, Thyssenkrupp plans to commission a so-called direct reduction iron (DRI) plant for the climate-friendly production of 2.5 million tonnes of steel annually, with a production start scheduled for 2026. The company, which like its peers is under pressure to retool its entire production process and make it carbon neutral, estimates the costs for the site as well as required infrastructure at over 2 billion euros.

Top News - Carbon & Power

Germany launches $53 bln scheme to help stricken industry decarbonize

Germany is launching a programme that will make available tens of billions of euros for firms facing substantial energy costs, in a bid to help its challenged industrial sector fund a shift towards carbon-neutral production techniques. The programme, which according to sources will have a volume of around 50 billion euros ($53.45 billion) over the next 15 years, comes as European industry faces pressure due to high costs for raw materials, energy and labour. The money is to come from a so-called climate and transformations fund, being fed by proceeds from emissions trading and other sources, although the economy and finance ministries both pointed to ongoing talks over Germany's budget, suggesting details have yet to be hammered out. It also aims to provide a counterweight to programmes in other regions, most notably the United States, that could lure companies away from the continent by offering lavish subsidies and more favourable legislation. The so-called climate protection contracts are a major pillar of Germany's response to these challenges, hoping financial support can help makers of steel, cement, paper and chemicals to decarbonise their production. "We are in a period of prolonged recession, in an extremely challenging period economically," Economy Minister Robert Habeck told journalists after outlining details of the scheme. He said that while other parts of the world, ranging from the United States to Asia, were offering investment incentives, Germany was subject to stricter requirements when it comes to budget and keeping debt under control. "Nevertheless, it can't be right to not provide investment incentives and investment impulses in this phase. We're rather observing a weakness in investment and in innovation in Europe and in Germany." A report by German industry association BDI on Monday said that 16% of surveyed companies were in the process of actively shifting parts of production abroad and that an additional 30% were considering it. Companies have two months to express interest in the programme, aimed at fulfilling Germany's pledge to become carbon neutral by 2045, before an auction process starts, Habeck said, adding that lowest bids would win. Firms emitting 10 kilotonnes of CO_2 or more a year would be eligible for the auction process, effectively opening it up for the thousands of mid-sized companies active in Europe's top economy. These include numerous makers of speciality chemicals, the sector most exposed to energy costs that came under extreme pressure when gas prices spiked in 2022 in the wake of reduced supplies from Russia. "This is an important signal for businesses and gives them the investment security they need now," said Joerg Rothermel of chemicals lobby VCI, which has long warned that high energy costs could harm local production.

EU puts an end to its electricity market crisis measures

The European Commission said on Monday it had decided not to prolong emergency measures introduced last year to shield consumers from soaring energy prices, adding those measures had helped to contribute to a calming of European electricity markets.

At the end of 2022, the 27-member European Union was in the midst of an acute energy crisis fuelled by Russia's invasion of Ukraine, with member states then ploughing hundreds of billions of euros into tax cuts, handouts and subsidies to tackle the crisis. "The Commission confirms that it will not propose a prolongation of these crisis measures," it said in a statement, reminding these included electricity demand reduction measures, revenue caps for power plants and retail price setting rules.
Concerning gas, European Union countries agreed end March to extend for the next 12 months, until March 2024, a voluntary target to curb their gas demand by 15%.
The Commission added that electricity prices have now decreased to less than 80 EUR/MWh and gas prices have not only fallen but also stabilised, to the extent that the electricity price spikes observed throughout 2022 are considered "less probable to occur in the upcoming winter".
"EU countries reported that they broadly respected the binding target of reducing electricity consumption by 5% at peak hours – an important step for easing price pressure. "
The Commission also said that some aspects of the emergency measures had been included in its proposals for longer-term structural adjustments in the electricity market design.

MARKET MONITOR as of 06:42 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$71.50 / bbl	-0.90%	-10.91%
NYMEX RBOB Gasoline	$2.46 / gallon	0.04%	-0.77%
ICE Gas Oil	$698.75 / tonne	-1.17%	-24.13%
NYMEX Natural Gas	$2.25 / mmBtu	0.18%	-49.74%
Spot Gold	$1,960.09 / ounce	-0.09%	7.44%
TRPC coal API 2 / Dec, 23	$100 / tonne	4.17%	-45.87%
Carbon ECX EUA / Dec, 23	€82.88 / tonne	0.48%	-1.30%
Dutch gas day-ahead (Pre. close)	€28.70 / Mwh	23.18%	-62.02%
CBOT Corn	$5.38 / bushel	1.37%	-20.72%
CBOT Wheat	$6.53 / bushel	2.55%	-20.34%
Malaysia Palm Oil (3M)	RM3,375 / tonne	-0.18%	-19.14%
Index (Total Return)	**Close 05 Jun**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	288.59	0.34%	-4.23%
Rogers International	26.23	0.98%	-8.51%
U.S. Stocks - Dow	33,562.86	-0.59%	1.25%
U.S. Dollar Index	104.	-0.01%	0.46%
U.S. Bond Index (DJ)	406.47	0.03%	3.54%

Top News - Dry Freight

Export prices of Russian wheat continued to decline amid high supply

Export prices of Russian wheat continued to decline last week, as did global benchmarks, amid continued ample supply on world markets, including high export volumes from Russia.

The price of Russia's new wheat crop with 12.5% protein content, delivered free on board (FOB) from the Black Sea, was assessed at $225 a tonne compared to $230 a tonne the previous week for the old crop, the IKAR agriculture consultancy said.

The Russia-focused agricultural consultancy Sovecon estimates total Russian wheat exports in May at 4.1 million tonnes, compared to 1.2 million tonnes in May 2022 and 1.5 million tonnes on average.

Sovecon has raised its Russian wheat export forecast for the 2023/24 season to 45.7 million tonnes, up by 2.7 million tonnes. The consultancy added that total grain exports were expected to reach a record high of 57.2 million tonnes.

The wheat export forecast for the new season has been revised due to increased harvest estimates and statements by the Ministry of Agriculture that it has no plans for intervention purchases implying bigger market supply.

According to port data, weekly grain export totalled 0.73 mmt (1.07 mmt a week ago), including 0.65 mmt (0.97 mmt) of wheat.

Russia exported 730,000 tonnes of grain last week compared to 1.07 million tonnes a week earlier, including 650,000 tonnes of wheat compared to 970,000 tonnes a week earlier, Sovecon wrote in its weekly note, citing port data.

As of June 1, farmers seeded 28.2 million hectares of grains compared to 26.4 million hectares in 2022, including 13.2 million hectares.

The spring wheat seeding campaign is mostly over, Sovecon noted.

"The Urals and Siberia were mostly dry again this week ... The Urals and Siberia seeded 7.5 million hectares of spring wheat out of a total 13.2 million hectares. This is becoming a bigger problem every week – we could revise the spring wheat forecast lower in the next crop update," Sovecon said.

Saudi Arabia buys 624,000 tonnes of wheat in tender

Saudi Arabia bought 624,000 tonnes of wheat in an international purchasing tender for September-October shipment, the General Food Security Authority (GFSA) said on Monday.

It was bought at an average price of $261.76 a tonne c&f, state buyer GFSA said.

The wheat with 12.5% protein content was sought for September-October arrival in a series of Saudi ports. The purchase was more than the 480,000 tonnes sought in the tender.

Origins offered were the European Union, Black Sea region, North America, South America and Australia, with the seller having the option of selecting the origin supplied, GFSA governor Ahmad Al-Fares said in a statement.

Traders said they expected wheat from the Black Sea region, especially Russia, to be supplied heavily for the purchase.

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Picture of the Day

A view shows a pressure gauge near oil pump jacks outside Almetyevsk in the Republic of Tatarstan, Russia June 4. REUTERS/ Alexander Manzyuk

(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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