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Top News - Oil

US says Kremlin oil tax changes to hit Russia's crude output capacity

The Kremlin's changes to the way it taxes oil sales were forced by Western sanctions on Russia over its war on Ukraine and will hit its oil production capacity over time, U.S. Deputy Treasury Secretary Wally Adeyemo said on Thursday.

Russian President Vladimir Putin in February signed a law fixing the discount on Russia's dominant Urals blend of crude oil for tax calculations. The move came as Moscow scrambled to cover a widening budget deficit due to Western sanctions, including the $60 price cap on Russia crude exports the G7 and EU imposed last December.

Adeyemo said the price cap and sanctions have forced Moscow to change its tax plan, locking in a "massive discount" for Russia's oil, the country's most important commodity.

The oil price cap bans G7 and European Union companies from providing services such as transportation, insurance and financing for Russian oil and oil products if they are sold above the cap. "When it comes to the price cap, either Russia continues to accept the steep discount that our actions have imposed on their energy exports, or they institutionalize it themselves with these changes to their tax regime," Adeyemo said in prepared remarks of a speech to Washington think tank Center for a New American Security just over six months after the cap was agreed.

The tax changes "will constrain Russia's oil companies going forward, leaving them with fewer funds to invest in exploration and production and over time diminishing the productive capacity of Russia's oil sector."

He said the sanctions have forced Russia to invest the equivalent of billions of dollars in its own oil exporting system that does not use Western services such as reinsurance. "This is money the Kremlin cannot invest in tanks and other weapons to fight its illegitimate war in Ukraine," Adeyemo said, referring to the conflict Russia started in February 2022.

The tax law changes the calculation of taxes on Russian oil sales by assuming a fixed discount to international benchmark Brent crude, instead of basing it on the market price of Urals. It set the maximum discount for Russia's Urals blend compared with Brent crude for tax calculations at $34 a barrel in April, falling to $31 in May, $28 in June and $25 in July - in effect not far from current market prices for Urals crude.

More changes could be in the works. According to Russian media reports, the Russian government has been considering pegging the Urals oil price to a Dubai grade for calculation of taxes.

Kuwait's KPC sees good oil demand from China in H2

Kuwait Petroleum Corporation (KPC) sees continued good demand for oil from China in the second half of the year, its chief executive said on Thursday, speaking to Reuters as part of a podcast series hosted by the Al Attiyah Foundation.

"We see that from (...) our customers in China, our largest customer for KPC for crude oil, those customers continue to demand at least similar amounts of crude if not more and it is a harbinger, if you will, of continued good demand," Sheikh Nawaf Saud al-Sabah said.

Sheikh Nawaf also said Kuwait's market share in China was stable despite increasing Russian exports into Asia on the back of Western sanctions on Moscow since its invasion of Ukraine. "We have had customers, our largest customers in China for decades, and they will continue to be that way because we have long term relationships with them," he said.

Kuwait, an OPEC producer, has been boosting oil products exports to Europe, Africa, Asia and the Americas after the Western sanctions on Russia reshuffled energy trade routes. On Thursday, Sheikh Nawaf said the country had taken advantage of the increased demand in Europe for its fuel oil and middle distillates.

"We have the product available to go to Europe and we are capturing those opportunities," he said.

Top News - Agriculture

US corn, soy crops struggle through early development; yields threatened

A stretch of dry weather following planting season has stressed crops across the U.S. Midwest, raising concerns that the forecasted record corn and soybean harvest will fall below expectations. A bumper harvest is needed to replenish global stockpiles and restore competition on the export market that has been dominated by cheap Brazilian crops in recent months.

"Some of the seeds are just lying there in the soil," said Dale Haudrich, who grows corn, soybeans and wheat on his 1,000-acre farm near Waterloo, Illinois.

"You expect some kind of rain during the time period to get it up and growing." Haudrich estimated that the dryness could cut yields in his area by as much as 25%.

The U.S. government left its forecast unchanged in its most recent estimate of the crop size but farmers and analysts are noting the crops have struggled through early development stages.

Meteorologists forecast an El Nino weather pattern this summer that typically brings wetter and cooler than usual conditions to the Midwest but it may arrive too late to reverse the damage done during the past few weeks.

Crops in major production states in the eastern U.S. Midwest such as Illinois, Indiana and Michigan were under the most pressure, according to government condition reports. Crop ratings in southern areas of the U.S. Plains such as Kansas and Nebraska - states that need to produce robust yields if the record harvests are to be realized - also were below average.

The dry weather helped farmers speed through planting but the arid conditions have led to uneven stands of corn in many fields and growers have reported that some soybeans have struggled to emerge through the crust on the topsoil.

The U.S. Agriculture Department said that just 59% of the U.S. soybean crop was rated good to excellent as of June 11, the lowest for mid-June since 2008. That year, the soybean harvest came in 4.4% lower than the government's initial projection.

Good-to-excellent ratings for corn fell 3 percentage points to 61% in the latest week, the third straight week USDA has reported a decline in ratings. The mid-June corn condition was the lowest since 2019, when the corn harvest came in 9.3% below the government's May forecast. Both corn and soybean ratings were well below the national average in Illinois, the biggest soybean-producing state and the second-biggest corn state.

"Much of the state is abnormally dry or in moderate drought," said Talon Becker, a commercial agriculture educator at the University of Illinois. "In the driest areas, you are definitely seeing some stress."

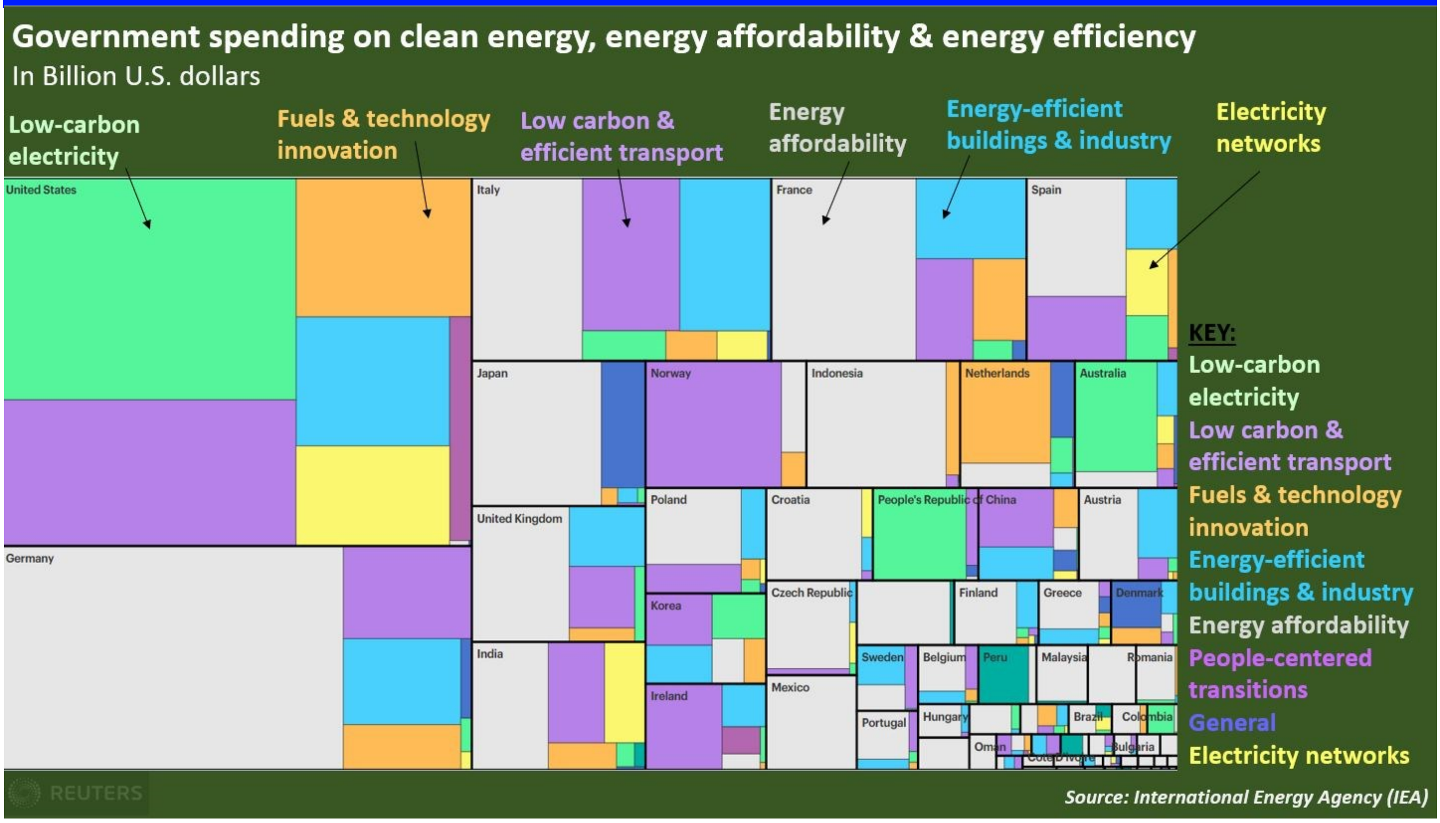
The weekly U.S. Drought Monitor, prepared by a consortium of climatologists, showed that 89% of the Midwest was abnormally dry as of June 13, the highest level since the drought of 2012. Traders are closely monitoring every change in the weather.

Chicago Board of Trade November soybean futures, which track the crop that farmers will harvest this fall, have rallied 8.2% this month after falling to their lowest level in nearly two years at the end of May. CBOT December corn futures were up 5.1% during the same stretch.

The signs of stress are easy to see even without doing a close inspection of the fields, said Jon Rosenstiel, a farmer in Pearl City, Illinois, who grows corn and soybeans on 2,000 acres.

"We have not mowed the yard in a couple of weeks and that kind of tells you what the crops are doing," Rosenstiel said. "They are getting by and they are still alive but they need that moisture. We are kind of getting to the critical time."

Chart of the Day



US sugar prices seen weakening from peak levels, analysts say

There are indications that sugar prices in the United States could start to fall from the elevated levels of the last three years, analysts said, although better weather is needed to avoid any problems with local production.

U.S. sugar users, both industrial and retail, have been dealing with historically high prices since the beginning of the pandemic in 2020.

Prices rose nearly 70% from early 2020 to an all-time high of 43.50 cents per pound in mid-April this year, due mostly to tight availability linked to supply chain issues and lower production.

Analysts point to supply side improvements for both sugar and alternative sweetener corn syrup, while demand has softened.

"Retail prices remain stubbornly high while wholesale prices have begun to ease," said soft commodities analyst Judith Ganes, president of J. Ganes Consulting, LLC, in a report for Sugaronline.

Sosland Publishing said in a weekly sugar report that "talk about slow sugar and corn sweetener deliveries became more prominent" in the market, adding that purchasing managers expect weakness in the spot price to develop.

It said that there was more availability of sugar and corn syrup on the spot market due to slower-than-expected demand.

Ganes said the U.S. Department of Agriculture (USDA) could adjust downwards its projection for sugar demand in the country due to market developments.

"Given the known slowed sales volumes based on units sold and shrinkage in packaging, I would have to believe that it may be difficult to sustain the (USDA) sugar use figure and revisions could occur later," she said.

Analysts, however, said that rain is needed in the U.S. sugar beet areas. Problems in local production could prevent prices from falling, they said.

Top News - Metals

Nearby LME tin prices soar, putting pressure on short positions

Prices of tin for nearby delivery on the London Metal Exchange (LME) have soared compared with those for longer maturities due to one company holding more than half of the inventory in LME registered warehouses.

This, traders say, makes it expensive for companies that have sold large amounts - short positions - of tin to deliver against their contracts or roll them forward. The premium or backwardation for cash tin over the three-month contract climbed to $1,300 a metric ton on Thursday, the highest since November 2021, from $440 on Monday.

Tin contracts expiring in June are priced at a premium near $1,100 a metric ton over the three-month contract, while the June over the July contract has traded at a premium of $700.

"Whether the shorts unwind their positions or roll them forward, it's going to cost," a metal trader said. LME data published with a two day lag shows one company holding between 50% and 79% of tin warrants - documents that confer ownership of metal in LME warehouses.

Other LME data also published with a two-day day lag shows two companies holding 20%-29% of open interest - the number of outstanding contracts due to mature or be rolled over at the next settlement date - for August. The LME does not publish names of companies with large holdings of metals or contracts.

"The LME is closely monitoring the tin market in light of the significant tightness in tin spreads," the exchange said in response to a request for comment.

Part of the problem, traders say, is low stocks of tin in LME registered warehouses, which at 2,025 metric tons are down 60% since Sept 2022.

"There's a big difference between 50% of 2,000 tons and 50% of 5,000 tons," a tin trader said, adding that the LME tin market was illiquid. "It doesn't take a lot to move prices."

"The LME’s deferred delivery mechanism and backwardation cap are currently in place to manage low stock situations such as this, which are working as intended," the LME said. "However, we remain ready to take further action where necessary."

Benchmark tin hit a near-two-month high of $27,335 a metric ton and was last up 1.9% at $27,275.

Prices have been boosted by worries about supplies in Myanmar and production cuts due to maintenance in China.

COLUMN- Iron ore dances between China stimulus optimism and soft economic reality: Russell

Iron ore is engaging in a familiar dance of flitting between hopes of more and effective economic stimulus in China, and the reality that the rebound in the world's second-biggest economy is sputtering.

The spot price of iron ore has gyrated in recent weeks, driven by hopes for more stimulus from Beijing and concerns that the run of soft economic indicators is likely to extend. China buys more than 70% of the total volume of global seaborne iron ore and produces just over half of the world's steel, making its economic conditions key to the outlook for the main raw material for steel.

The price of iron ore contracts traded in Singapore ended at $113.42 a metric tonne on Wednesday, up marginally on the day but also up 10.8% from the low this year of $102.33 on May 5. The immediate driver was news that China's central bank on Wednesday lowered a key short-term lending rate for the first time in 10 months, cutting the seven-day reverse repo rate by 10 basis points to 1.90%.

That reduction, and expectations of further cuts to other lending rates, is sparking optimism that Beijing is acting to boost the flagging property sector, which consumes about one-third of China's steel output. The hope can be seen in the domestic iron ore price, with contracts on the Dalian Commodity Exchange outperforming Singapore futures.

The front-month Dalian contract ended at 804 yuan ($112.29) a metric tonne on Wednesday, up 1.5% on the day and about 17.8% above the closing low for the year of 682.5 yuan on May 25.

There are also some fundamental supports for the iron ore price, most noticeably declining inventories at China's ports.

Port stockpiles monitored by consultants SteelHome dropped to 126.2 million metric tonnes in the week to June 9, down from 126.9 million the previous week and hitting their lowest level since July last year. There is a seasonal pattern to inventories as they build over the northern winter while steel mills curb output, then drop as steel production ramps up for the summer construction season.

In the same week last year, inventories were at 128.3 million metric tonnes, or 1.6% above the current level. Although this isn't a huge drop on a year-on-year basis, it does indicate that there is room for steel mills to keep imports at a robust level and keep stockpiles comfortable.

Another bullish indicator is steel mills' lifting production rates, with data from the China Iron and Steel Association showing output at its members rose to 2.23 million metric tonnes a day in the June 1-11 period, up 6.5% from the May 21-31 period.

The association also reported that steel inventories were 15.8 million metric tonnes over June 1-10, up 1.2% from the prior 10 days but down 15% from the same period in 2022.

SOFT ECONOMIC DATA

Countering the positive indicators for iron ore demand is a raft of underwhelming economic data that shows China's rebound after ending its strict zero-COVID policy in December has been uneven.

Industrial output grew 3.5% in May from a year earlier, the National Bureau of Statistics said on Wednesday, slowing from the 5.6% gain in April and below a 3.6% increase expected by analysts in a Reuters poll. Retail sales, which had been the bright spot in China's economy in the first quarter, lifted 12.7%, missing forecasts of 13.6% growth and down from April's 18.4%.

The weak data may actually boost iron ore sentiment, as investors will expect further stimulus measures from Beijing.

But for any rally to sustain, it will be necessary for stimulus to translate into actual steel demand in coming months.

In the meantime, China's appetite for iron ore imports is

MARKET MONITOR as of 06:31 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$70.83 / bbl	0.30%	-11.75%
NYMEX RBOB Gasoline	$2.55 / gallon	0.56%	2.98%
ICE Gas Oil	$727.00 / tonne	2.07%	-21.06%
NYMEX Natural Gas	$2.57 / mmBtu	1.42%	-42.59%
Spot Gold	$1,961.99 / ounce	0.22%	7.54%
TRPC coal API 2 / Dec, 23	$116.5 / tonne	2.64%	-36.94%
Carbon ECX EUA / Dec, 23	€92.35 / tonne	-0.98%	9.98%
Dutch gas day-ahead (Pre. close)	€40.80 / Mwh	6.39%	-46.01%
CBOT Corn	$5.75 / bushel	0.83%	-15.23%
CBOT Wheat	$6.79 / bushel	0.85%	-15.77%
Malaysia Palm Oil (3M)	RM3,737 / tonne	6.13%	-10.47%
Index (Total Return)	**Close 15 Jun**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	296.19	2.57%	-1.71%
Rogers International	26.20	0.61%	-8.62%
U.S. Stocks - Dow	34,408.06	1.26%	3.80%
U.S. Dollar Index	102.12	-0.81%	-1.36%
U.S. Bond Index (DJ)	408.22	0.62%	3.37%

likely to remain locked within the fairly tight band of 90 million to 103 million metric tonnes per month, which has persisted since July 2022. June's imports are expected to be about 98 million metric tonnes by commodity analysts Kpler, which would be slightly ahead of May's official customs figure of 96.18 million.
The opinions expressed here are those of the author, a columnist for Reuters.

Top News - Carbon & Power

EU to vote on extension for coal subsidies beyond 2025 Monday, draft shows
European Union countries are considering a proposal that would let member states prolong capacity mechanism support for coal plants by ducking CO_2 emission limits, a draft document seen by Reuters showed.
EU countries' ambassadors will discuss the draft proposal on Friday, before their energy ministers vote on it on Monday.
The EU sets CO_2 emission limits for capacity mechanisms, to attempt to steer countries towards supporting cleaner generation in their energy mix. The limit is 550 grams of CO_2 of fossil fuel origin per kilowatt hour of electricity produced. The document said capacity mechanisms already in place before July 2019 would be allowed to dodge this limit for a limited period if certain other conditions are met.
There was a majority coalition backing the move, which would allow Poland to prolong its support scheme for coal-fired power plants, the country's climate minister told Reuters on Thursday. Poland relies on coal for around 70% of its electricity generation. Plants receive state support for providing baseload power but that is set to end in 2025 when tighter EU emissions limits kick in for power plants receiving such support, putting generators out of the money. "I've done a lot of work and had good talks in recent days and I'm optimistic about Monday. It's not just Poland that needs capacity market," climate minister Anna Moskwa said in an interview. "We've built a bloc supporting this and today this is a coalition that gives us majority." Moskwa did not list the countries that would back the proposal. "That’s an environmental scandal," one EU country diplomat said of the proposal.

U.S. proposes to formalize deep fee reductions for wind, solar on federal land
A new regulation will formalize a roughly 80% cut in project fees for wind and solar energy developments on federal lands under a proposal by the Biden administration on Thursday as part of a strategy to boost renewable energy to fight climate change.
The Interior Department's U.S. Bureau of Land Management (BLM) last year had lowered rent fees and lease rates for solar and wind by about 50%, using departmental authority, after developers complained they were too high to draw investment. Thursday's proposal from the Interior Department would deepen those fee reductions and enshrine the changes in a formal regulation - making them harder to reverse under a future political administration.
President Joe Biden wants to decarbonize the U.S. electricity sector by 2035, a goal that will require rapid deployment of large amounts of wind and solar energy. The BLM manages one in every 10 acres of land in the United States and Interior has a congressional mandate to permit 25 gigawatts (GW) of renewable energy on federal lands by 2025. Interior in a statement said BLM's proposed rule would reduce project fees by about 80% and would enable the agency to accept leasing applications in priority areas for wind and solar development outside of competitive auctions. The agency is also weighing additional fee reductions for projects using American-made equipment or built with union labor. Those proposals are aligned with Biden's pledge that fighting climate change can revitalize U.S. manufacturing and create well-paid union jobs.
BLM will accept public comments on the proposal for 60 days and aims to finalize a rule next year. The agency is currently processing 74 applications for solar, wind, geothermal and transmission lines linked to clean energy development. Combined, they have the potential to add more than 37 GW of renewable energy to the grid.
"President Biden's Investing in America agenda is helping unlock the full potential of clean energy, including on our public lands," White House National Climate Advisor Ali Zaidi said in an emailed statement. BLM is also in the process of identifying new areas for solar development in the Western United States. Solar industry representatives said they were reviewing the proposal.

Top News - Dry Freight

Black Sea grain shipments shrinking amid Ukraine deal doubts -Cargill exec

South American grain exports are set to overshadow Black Sea shipments this year as doubts grow over a UN-backed Ukraine deal and international traders cut commercial activities in Russia, a top executive with major commodities group Cargill said.

The Black Sea grain deal, which allows the safe passage of grains through three Ukrainian ports, was extended on May 17 for two months - a shorter time than expected.

"The corridor is definitely not performing as it was at the beginning," Jan Dieleman, president of Cargill's ocean transportation business, told Reuters.

"It’s more focused on the smaller (ship) sizes now ... I do think that with some quite big crops in Brazil, you might also see some of the demand being switched out of the Black Sea into Brazil at some point, on corn, for instance."

Record production of both corn and soybeans in Brazil in the current 2022/23 season has led to strong demand for vessels in South America.

Dieleman said if the Black Sea grain corridor deal ended, the price impact would be less "simply because it is a smaller (export) programme already".

"The grain market is not the same as it was a year ago."

Dieleman added that the Black Sea area was "still a war zone and ships are being attacked and it’s not business as usual".

This week, President Vladimir Putin said Russia was considering withdrawing from the deal, which was also brokered by Turkey, because the West had cheated Moscow by not delivering on promises to get Russian farm goods to world markets.

The appetite of Western companies to ship Russian grains out of the Black Sea was expected to weaken going forward.

In March Cargill said it would no longer handle Russian grain exports from July, although the shipping unit has said it will continue to carry grain from the country's ports.

Other leading traders, including Louis Dreyfus and Viterra, have also joined the Russian grain export exodus in recent months.

"It has become more complicated for us," Dieleman said. "Our activity is clearly less."

Cargill is one of the world's biggest charterers of dry bulk ships.

Dieleman said shipping activity from Russia was being replaced by a shadow fleet of ships that were not chartered in the same way as in international markets.

"We see more of the grey/black fleet moving more stuff as well. That is taking a bigger share of the exports at the moment," he said.

"There is still a bit of self-sanctioning going on in this market, and people don’t want to get involved unless they have to."

Africa needs grain imports, key states say ahead of Putin talks

Key African states stressed the need for grain imports to tackle food insecurity as Russian President Vladimir Putin prepares to discuss with the continent's leaders the fate of a deal allowing the safe Black Sea export of food and fertiliser from Ukraine.

Putin said on Tuesday that Russia was considering quitting the Black Sea grain initiative - brokered by the United Nations and Turkey in July last year - because its own grain and fertiliser shipments still face obstacles. The pact could expire on July 17.

A delegation of African leaders is due to visit both Ukraine and Russia from this week in a push to end Russia's 16-month long war, and Putin has said he plans to raise the Black Sea grain deal. African leaders could also propose to Putin an "unconditional grain and fertiliser deal," according to a draft framework document seen by Reuters on Thursday.

South African President Cyril Ramaphosa believes Putin and Ukrainian President Volodymyr Zelenskiy are aligned with him on the "importance of grain deliveries to Africa for the alleviation of food insecurity", said Ramaphosa's spokesperson Vincent Magwenya.

"We are therefore not aware of any threats to pull out of the grain deal," Magwenya told Reuters on Wednesday.

Kremlin spokesman Dmitry Peskov said on Wednesday that Moscow had not yet made a decision on withdrawing.

Russia has issued a list of demands it wants met, including the resumption of its Black Sea ammonia exports and reconnection of the Russian Agricultural Bank to the SWIFT payment system.

U.N. Secretary-General Antonio Guterres told reporters on Thursday that he hoped the talks between Putin and the African leaders led to "a positive outcome in relation to the Black Sea initiative, as well as in relation to the efforts that we are making for the exports of Russian food and fertilizer."

'DEVASTATING TOLL'

While food and fertiliser exports do not fall under the West's tough sanctions imposed on Russia over the war, Moscow says restrictions on payments, logistics and insurance create barriers.

Putin also complained that under the deal "almost nothing goes to African countries" and said Moscow is ready to supply grain for free to the world's poorest countries.

The United Nations has long said the Black Sea grain deal is a commercial enterprise, but that it benefits poorer countries by helping lower food prices globally.

Zambia's Foreign Minister Stanley Kakubo said in a statement on Wednesday that the war in Ukraine and conflict in Sudan had "taken a devastating toll on African communities, resulting in the loss of life, and food insecurity, due to the rising costs of grain and fertiliser".

According to U.N. data, more than 31 million tonnes of grain have been exported under the pact, with 43% of that to developing countries. More than 625,000 tonnes of grain has been shipped by the U.N. World Food Programme for aid operations.

The Black Sea grain deal was initially brokered for 120 days. Russia has agreed to extend it three times but warned on Wednesday that its "goodwill" cannot last forever.

Not all African states were worried, however.

"If it's true that we would starve if that grain deal is disrupted, why is it that it's the West crying more than us Africans? They are crying crocodile tears," Uganda's state minister for Foreign Affairs, Okello Oryem, told Reuters.

He added that Uganda would have no qualms about accepting free grain from Russia.

Picture of the Day

A sprinkler sprays water on a corn field in Vieillevigne near Nantes as the risk of drought continues across France, June 15, 2023. REUTERS/Stephane Mahe

(Inside Commodities is compiled by Sreshtha Uniyal in Bengaluru)

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