Oil | Agriculture | Metals | Carbon & Power |Dry Freight
Click on headers to go to that section

Top News - Oil

FOCUS-Oil giants drill deep as profits trump climate concerns

Oil and gas companies have intensified the hunt for new deposits in a long-term bet on demand, as they reinvest some of the record profits from the fossil fuel price surge driven by the Ukraine war, according to data and industry executives.

The exploration revival - on the part of European majors in particular - reflects a renewed commitment to oil and gas after Shell and BP went back on pledges to reduce output and invest in renewables as part of the energy transition.

It responds to pressure from a majority of investors to maximise their oil and gas profits rather than invest in lower margin renewable energy businesses.

It also defies protests from a minority of activist investors who want oil companies to be more closely aligned with global efforts to mitigate climate change. The renewed appetite for oil and gas reserves and production is an especially big turnaround for BP, which got rid of most staff from its exploration unit three years ago. Exploration is a long-term, high-risk business. Big-ticket offshore projects typically take five years to develop from discovery and at least another 10 years to return the initial investment.

But as a source of profit, it has proved more reliable for the energy majors than the very different business model of producing renewable energy. Upstream oil and gas have historically had returns of around 15%-to-20%, while most renewables projects have delivered up to 8%. An oil and gas price rally driven by energy producer Russia's invasion of Ukraine translated into record profits for the energy majors. That has increased confidence in the most costly, high-risk offshore exploration that can also deliver the highest rewards. "Offshore is experiencing a renaissance," oilfield services company SLB Chief Executive Olivier Le Peuch said on June 21. Leading industry data providers and consultancies endorse the view.

The number of offshore drilling vessels used to explore and produce oil and gas recovered in May to pre-pandemic levels, rising by 45% from October 2020 lows, an analysis of data from oil services firm Baker Hughes showed.

Wood Mackenzie analysts predict a continued increase in activity, forecasting offshore exploration and drilling activity to grow by 20% by 2025. Already, the rise in drilling has helped to drive daily rates for leasing drilling rigs to the highest levels since a 2014 downturn when commodity markets crashed. "Higher oil prices, the focus on energy security and deep water's emissions advantages have supported deep water development and, to some extent, boosted exploration," Wood Mackenzie analyst Leslie Cook said. The potential size of offshore deposits can ensure economies of scale, meaning less energy is used to extract each barrel, limiting emissions.

The International Energy Agency forecasts global upstream oil and gas investments are set to increase by around 11% to $528 billion in 2023, the highest level since 2015. Barclays expects the number of offshore projects to get approval this year will reach a 10-year high. Wood Mackenzie meanwhile predicts the commitment of up to $185 billion to develop 27 billion barrels of oil reserves, with international oil companies focused on the higher-cost, higher-return deepwater developments.

It also anticipated the so-called Golden Triangle – U.S. Gulf of Mexico, South America and West Africa – as well as part of the Mediterranean will account for 75% of global floating rig demand through 2027.

FROM NAMIBIA TO FAR OFF EASTERN CANADA

Activity extends beyond that core exploration territory. Nambia, which has yet to produce any oil and gas, has attracted strong interest after Shell and TotalEnergies made discoveries off the coast of the southern African country.

Shell's head of upstream Zoë Yujnovich said on June 14 that results from drilling tests so far were encouraging. Together with its partners QatarEnergy and Namibia's national oil company, Shell plans to drill two further wells in Namibia by the third quarter of this year, a document seen by Reuters shows.

Shell has also applied for a licence to drill another 10 exploration and appraisal wells there, the document shows. TotalEnergies made an oil discovery in February 2022 in the Venus well in Nambia's Petroleum Exploration Licence (PEL) 56, which analysts at Barclays estimate holds 3 billion barrels of oil equivalent (boe).

Shell reported discoveries in the Graff, La Rona and Jonker wells in PEL 39, which together are estimated to hold 1.7 billion boe, according to Barclays.

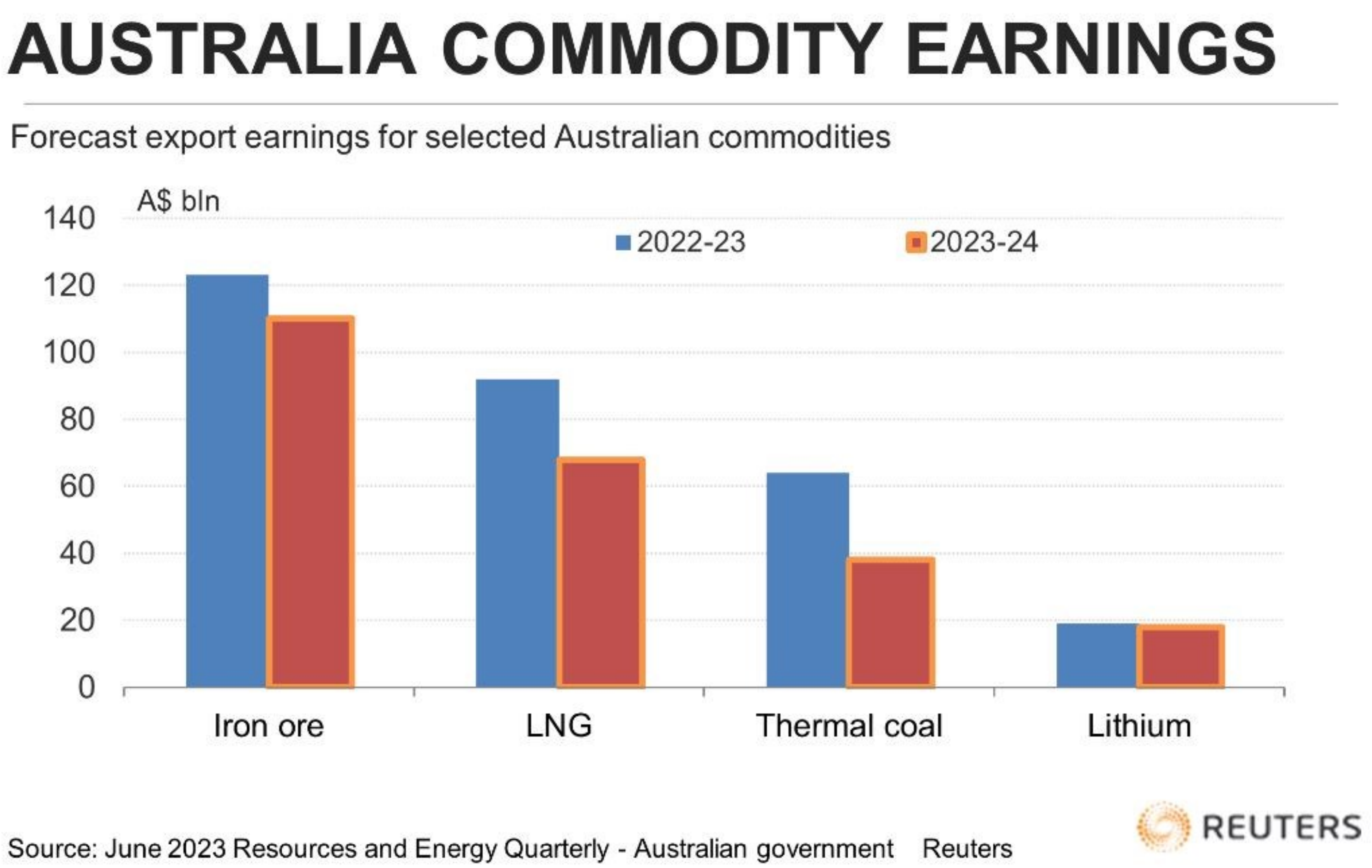
As it tries to reverse a decline in oil and gas output after it shifted to renewables, BP has turned to the Gulf of Mexico and far off the eastern coast of Canada, where it is ramping up oil exploration activity in frontier prospects.

PREVIEW-Asia refiners expect Saudi Arabia to cut August crude prices

Asian refiners expect Saudi Arabia to lower prices for its crude supply to the region in August, a Reuters survey showed, even as the top oil exporter pledged to deepen production cuts in July as part of a broader OPEC+ deal.

Saudi Arabia in June unexpectedly raised prices for July-loading cargoes, eating into Asian refiners' margins.
To support global prices depressed by rising interest rates and recessionary fears, the producer volunteered to cut output by 1 million barrels per day (bpd) in July on top of a broader OPEC+ deal to limit supply into 2024.
State oil company Saudi Aramco is expected to cut the official selling price (OSP) for Arab Light crude in August by about 50 cents a barrel from the prior month, according to a Reuters survey of six refining sources.
The July OSP for the flagship grade hit a six-month high of $3 a barrel above the average of Dubai and Oman quotes.
"Saudi needs to trim prices to reflect the market movements. They have gone a bit too far from the reality in the past few months," said one survey respondent.
Profits at a typical Singapore refinery processing Dubai crude fell to an average of $3.44 a barrel in June, from $4.78 a barrel last month.
Also, demand for August-loading cargoes, which would arrive at Asian refineries in September, could fall as some plants are set to shut for maintenance, survey respondents said.
Saudi crude prices typically closely track changes in benchmark Dubai monthly price spreads, but the two have disconnected in recent months.
Unipec, the trading arm of Asia's largest refiner Sinopec and also one of the world's biggest Saudi oil buyers, last month sold an unusually large volume of Middle East crude on the Platts window, a platform used by global pricing agency S&P Global to set benchmark Dubai prices.
Sales by Unipec largely kept the June average of the spread between first and third month Dubai prices little changed from the previous month despite robust demand from PetroChina and Totsa, the trading arm of TotalEnergies.
The surprise July Saudi output cut and subsequent price hikes during the peak summer demand season prompted some Chinese state-owned refiners to lower supply requests as a post-COVID recovery in the world's No. 2 economy faltered.
Saudi crude OSPs are usually released around the fifth of each month, and set the trend for Iranian, Kuwaiti and Iraqi prices, affecting about 9 million bpd of crude bound for Asia. Saudi Aramco officials as a matter of policy do not comment on the kingdom's monthly OSPs.

Chart of the Day



Top News - Agriculture

Russia's envoy: No grounds to maintain grain deal status quo

Russia's envoy to the United Nations in Geneva said there were no grounds to maintain the "status quo" of the Black Sea grain deal that is set to expire on July 18, the Russian news outlet Izvestia reported on Monday. In a wide ranging interview, envoy Gennady Gatilov told the outlet that the implementation of Russia's conditions for the extensions of the agreement was "stalling." Those conditions included, among others, the reconnection of the Russian Agricultural Bank (Rosselkhozbank) to the SWIFT banking payment system. "Russia has repeatedly extended the deal in the hope of positive changes," Gatilov told Izvestia. "However, what we are seeing now does not give us grounds to agree to maintaining the status quo." The Black Sea deal, brokered between Russia and Ukraine by the United Nations and Turkey in July 2022, aimed to prevent a global food crisis by allowing Ukrainian grain trapped by Russia's invasion to be safely exported from Black Sea ports. Last week, the United Nations said it was concerned no new ships had been registered under the Black Sea deal since June 26 - despite applications being made by 29 vessels.

NEW 'NEW START' TREATY

Gatilov said he hopes "common sense" will prevail in the United States and there will not be the need to consider the option to denounce the New Start nuclear weapons treat, the last remaining U.S.-Russia arms control treaty that caps the countries' strategic nuclear arsenals. President Vladimir Putin has suspended Russia's participation in the pact, although both sides have pledged to continue to respect its limits and there since has been "direct contact" between Moscow and Washington on the issue. Gatilov reiterated Moscow's position that Russia would only return to a nuclear reduction treaty if Washington abandons its "destructive course of inflicting a strategic defeat" on Russia, but added Russia could be open to talks on a new pact. "I wish we could instead start discussing a treaty that could replace START after February 2026," he said. The New Start Treaty, signed in 2010 is due to expire in 2026.

Separately, Gatilov told Izvestia Russia is open to a diplomatic solution to the Ukrainian crisis, but the outlook is dim now as Kyiv and the West continue to bet on the use of military force.

COLUMN-Funds avoid heavy selling in CBOT grains, oilseeds despite price skid -Braun

Speculators continued covering short positions in U.S. grains and oilseeds through June 27 despite a sizable tumble in futures from the week's highs. However, selling in corn may have been revived late last week on a highly bearish U.S. supply outlook.

Chicago corn, wheat, soybean and soybean meal futures began rallying sharply in mid-June as expanding U.S. drought and disappointing rain events hammered crop conditions. Corn, soybeans and meal topped on June 21 but eased significantly in the following sessions on improved weather forecasts. In the week ended June 27, money managers cut their net long in CBOT corn futures and options to 52,845 contracts from 58,299 a week earlier, which included reductions in both long and shorts. Trade sources had pegged the week's net corn selling to be about four times heavier.

December corn futures fell 6.1% in the week ended June 27 but had been up as much as 5.4% on June 21. The contract fell almost 12% between Wednesday and Friday, settling at $4.94-3/4 per bushel, the lowest since October 2021 and off 21% from the June 21 peak. The U.S. Department of Agriculture on Friday revealed U.S. farmers had planted far more corn acres than analysts expected, amplifying the corn sell-off that has been mostly weather-driven. Soybean acres came in far below expectations, causing November beans to jump 6% on Friday. Soybean futures shed 3.6% in the week ended June 27 after max gains of 2.6% on June 21, though money managers increased their net long to 99,480 futures and options contracts from 76,950 a week earlier, mostly on new longs but including some short covering. Modest selling had been expected. December soymeal fell 4.3% through June 27 after max gains of 7.5% on June 21, which curbed the week's selling. Money managers reduced their meal net long to 58,980 futures and options contracts from 63,924 in the prior week, in line with expectations.

CBOT wheat futures rose 0.5% in the week ended June 27, though the contract had surged as much as 10.7% by June 26. Money managers executed a second consecutive week of heavy short covering in wheat, slashing their net short to 52,168 futures and options contracts from 84,134. That marked funds' least bearish CBOT wheat view since November, and the two weeks ended June 27 featured speculators' heaviest spree of short covering in six years. Gross longs were slightly reduced in both weeks. Price action in CBOT soybean oil was opposite from the others, as futures eased nearly 1% in the week ended June 27 but had been down as much as 11% with traders interpreting U.S. biofuel blending mandates negatively. Money managers covered bean oil shorts and added new longs through June 27, increasing their net long to 38,751 futures and options contracts, their most bullish view since January and up from 29,817 in the prior week.

END-OF-MONTH

CBOT November soybeans rose nearly 4% in the last three sessions and the soy products both added more than 3%, including a limit-up move for soybean oil on Friday.

December soyoil's Friday close of 58.97 cents per pound was the highest since early March.
CBOT wheat fell almost 7% between Wednesday and Friday, weighed down by corn's 12% losses. Wheat took a back seat to corn and soybeans Friday, though USDA's estimate of June 1 U.S. wheat stocks and 2023 wheat plantings came in below analyst predictions.
Trade sources peg funds' net selling in CBOT corn futures at 55,500 contracts over the last three sessions, and CBOT wheat selling is seen at 20,500 futures contracts.
Funds were seen as net buyers of 8,000 soybean futures, 9,500 soyoil futures and 3,500 soymeal futures between Wednesday and Friday.
Money managers' weekly net selling in CBOT corn futures and options has twice exceeded 100,000 contracts this calendar year.
Their biggest net buying week in soybeans so far is 46,442 futures and options contracts in early April, though net buying in the latest four weeks is near 100,000 contracts.
Karen Braun is a market analyst for Reuters. Views expressed above are her own.

Top News - Metals

EU countries seek to stretch raw material targets, add aluminium
European Union countries agreed on Friday to raise proposed targets for recycling and processing of raw materials required for its green transition and added aluminium to the list of essential minerals.
The Critical Raw Materials Act is a centrepiece of the EU strategy to ensure its industry can compete with the United States and China in making clean tech products and accessing the necessary raw materials.
The European Commission proposed in March that EU extraction of 16 "strategic raw materials", including lithium and copper, should rise to 10% of EU annual consumption by 2030, EU recycling to 15% and EU processing to 40%.
No more than 65% of a material should come from a single third country.
EU countries agreed on Friday that the targets for recycling and processing should rise to 20% and 50% respectively, according to EU diplomats. T
hey also proposed adding aluminium, alumina (aluminium oxide) and bauxite (the principle aluminium ore) to the list of strategic raw materials.

MARKET MONITOR as of 06:33 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$70.39 / bbl	-0.35%	-12.30%
NYMEX RBOB Gasoline	$2.45 / gallon	-3.67%	-1.08%
ICE Gas Oil	$713.25 / tonne	0.56%	-22.56%
NYMEX Natural Gas	$2.71 / mmBtu	-3.15%	-39.44%
Spot Gold	$1,914.23 / ounce	-0.28%	4.92%
TRPC coal API 2 / Dec, 23	$125 / tonne	7.87%	-32.34%
Carbon ECX EUA / Dec, 23	€88.60 / tonne	0.81%	5.51%
Dutch gas day-ahead (Pre. close)	€37.10 / Mwh	7.69%	-50.91%
CBOT Corn	$4.91 / bushel	0.51%	-27.58%
CBOT Wheat	$6.44 / bushel	-1.04%	-18.50%
Malaysia Palm Oil (3M)	RM3,947 / tonne	4.17%	-5.44%
Index (Total Return)	**Close 30 Jun**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	291.36	1.14%	-3.31%
Rogers International	26.11	1.42%	-8.91%
U.S. Stocks - Dow	34,407.60	0.84%	3.80%
U.S. Dollar Index	102.91	-0.42%	-0.59%
U.S. Bond Index (DJ)	407.17	0.61%	3.75%

Bauxite was already among 34 "critical raw materials", a group that includes all the strategic raw materials and other items such as arsenic and coking coal.
The act foresees simpler permitting procedure for critical raw material projects, monitoring to mitigate possible supply risks, increased recycling and diversification of imports. The Council, representing EU countries, will still have to agree a final text of the law with the European Parliament, which is expected to establish its position in October.
The Council and parliament aim to conclude negotiations on the text by the end of the year.

Argentina to begin lithium battery production in Sept
Argentina's first plant for lithium batteries will begin operations in September, using metal extracted locally by U.S. company Livent Corp, mining officials said on Saturday.
Livent had agreed earlier this year to supply lithium to the new plant, which was developed by Y-TEC, a unit of Argentine state oil firm YPF.
"We will start to produce the first lithium-ion battery cells in the country," said Roberto Salvarezza, president of Y-TEC, in a government statement, noting that the batteries will use lithium carbonate extracted by Livent in northern Argentina. Argentina is the world's fourth largest producer of lithium and has been attracting investment. Along with Chile and Bolivia, the country is in South America's so-called 'lithium triangle', which holds the world's largest trove of the ultra-light metal, highly coveted for its use in batteries.
Argentina's Mining Minister Fernanda Avila said she hoped it would be an example for future projects.
"The development of the supply around mining activity is a priority for our government," she said.

Top News - Carbon & Power

Britain planning to overhaul planning to meet net zero targets
Britain is planning to overhaul the country's planning system to make it easier to install overhead cables and pylons, the Department for Energy Security and Net Zero said on Sunday, a move to help the government reach its net zero targets.
A spokesperson for the department said the government had increased the amount of renewable energy capacity connected to the grid by 500% since 2010 but wanted to do more. "We want to go further as part of our plans to power up Britain with cleaner, cheaper and more secure homegrown energy.
"That is why we’re working to cut the time it takes to connect projects, building upon work already under way by network operators and (regulator) Ofgem," the spokesperson said, confirming a report in the Sunday Telegraph newspaper. Plans are expected to be brought forward later this year. Last month, the Climate Change Committee of legislators said Britain had lost its position as a global leader on climate action and was not doing enough to meet its mid-century net zero target.

COLUMN-Australia's exports of energy transition metals to top thermal coal: Russell
Australia's exports of new energy metals are expected to rise in value above those of thermal coal, the polluting fuel that has been the mainstay of electricity generation across much of Asia.
Exports of metals used in the energy transition are forecast to remain above A$40 billion ($26.6 billion) in the fiscal year that started on July 1, according to the latest quarterly report from the Australian government's Department of Industry, Science and Resources. In contrast, exports of thermal coal are expected to slide to A$38 billion in 2023-24 fiscal year, down from A$64 billion in the prior year, according to the report, released on Monday.
Australia is the world's largest exporter of key battery metal lithium and ranks fourth in exports of copper. It is also the world's largest producer of bauxite, the key raw material for aluminium, and is the third-largest producer of manganese and the fifth-biggest in nickel.
Australia is the world's second-biggest exporter of thermal coal behind Indonesia, and is the top exporter of coking coal, which is mainly used to make steel.
The country is also the world's biggest exporter of iron ore, the largest net exporter of gold and vies with the United States and Qatar as the top shipper of liquefied natural gas (LNG).
While exports of battery metals are expected to overtake those of thermal coal this fiscal year, the driver isn't increased volumes of shipments of the metals, or decreased export of coal. Rather the main factor is an expected decline in the price of seaborne thermal coal, as the surge in prices caused by Russia's invasion of Ukraine fades away. The government expects the volume of thermal coal exports to actually increase in 2023-24 to 201 million metric tons, up from 178 million in 2022-23. But the gain in volumes is more than wiped out by a decline in price for the benchmark Newcastle 6,000 kilocalorie per kg grade to average $158 a metric ton in 2023-24, almost halving from $303 in 2022-23.

SOFT LITHIUM
Lower prices are also forecast for lithium, with the government expecting exports to be worth A$18 billion in 2023-24, down from A$19 billion the prior year, even though the volume shipped is expected to rise to 3.42 million metric tons from 3.25 million.

Exports of copper are forecast to rise to A$13 billion in 2023-24 from A$12 billion previously, while volumes are forecast to lift to 865,000 metric tons from 836,000.
Export volumes for both nickel and zinc are expected to increase this year, but the values are likely to remain much the same as prices continue to soften.
Iron ore is the biggest of Australia's commodity exports, and the main raw material for steel isn't classified as a new energy metal even though steel is a vital component of many of the wind turbines and transmission grids needed for the energy transition.
Similar to other commodities, lower prices are expected to reduce export earnings for iron ore, with A110 billion expected in 2023-24, down from A$123 billion the prior year, even though volumes are forecast to rise to 918 million metric tons from 892 million.
LNG exports are also expected to drop in value to A$68 billion in 2023-24 from A$92 billion previously, with volumes slipping slightly to 81 million metric tons from 82 million in 2022-23.
Overall, total export earnings from resources in 2023-24 are expected at A$389.7 billion, down from the record high of A$459.5 billion in 2022-23.
The major takeaway from the report is that the impact on energy commodities from the war in Ukraine has faded and prices are expected to be more in line with historical norms.
But perhaps more importantly, the Australian government isn't forecasting a major boost in export earnings and volumes for the main energy transition metals.
Rather, the volume gains are expected to be incremental and prices are set to be largely stable, with the risks skewed to the downside. The opinions expressed here are those of the author, a columnist for Reuters.

Top News - Dry Freight

Australian commodities exports surge to record $300 bln, but set to tumble

Australian resource and energy exports climbed 9% to a record A$460 billion ($300 billion) in the financial year just ended, but are forecast to slide over the next two years as some energy prices have dropped back to levels last seen before Russia invaded Ukraine.
A surge in energy prices due to the war in Ukraine plus a buoyant U.S. dollar helped power exports beyond the previous record set a year earlier. But prices have fallen as interest rate hikes slow economic growth across major Western countries and as supply increases.
Australia's commodities export earnings are set to tumble 15% to A$390 billion this financial year and then to A$344 billion the year after, according to a quarterly government publication.
It expects thermal coal export earnings will slump 40% to A$38 billion this financial year while liquefied natural gas (LNG) exports will slide 27% to A$68 billion. The resumption of thermal coal exports to China after more than two years of trade blocks will help offset weaker energy demand globally, the report added.
Exports of iron ore - Australia's most lucrative export - will also trend lower due to falling steel demand in China as the country pivots away from investment-led growth, the report said. Iron ore exports are set to decline 11% to A$110 billion this financial year and then fall to A$93 billion the year after, the report predicted.
Exports of so-called energy transition metals like lithium and cobalt are forecast to remain over A$40 billion, it said without specifying a timeframe. That's more than double levels for the fiscal 2022 year.
Australia was well placed for the energy transition "given our rich geological reserves, expertise at extracting minerals and track record as a reliable producer and exporter of energy and resources," the report said.

Western Canada dock workers to resume talks Monday as strike enters third day

Dock workers at Canada's western Pacific coast will resume talks on Monday to try and end their first strike in three decades, as a union leader urged on Sunday the federal government to stay out of the negotiations.
Some 7,500 dock workers representing the International Longshore and Warehouse Union (ILWU) went on strike Saturday after negotiations with the British Columbia Maritime Employers Association (BCMEA) failed to reach a settlement.
The strike threatens to disrupt work at two of Canada's busiest ports, the Port of Vancouver and Port of Prince Rupert, the country's No. 1 and No. 3 by turnover.
They are the key gateways to export the country's natural resources and commodities and bringing in raw materials.
More than C$800 million ($604 million) worth of goods make their way through the western ports each day, accounting for about a quarter of Canada's total traded goods flow.
"The federal government must stay out of our business," Rob Ashton, president of ILWU Canada, told reporters on Sunday.
"If the BCMEA gets their way, and their way is to let the (federal) government make the collective agreement for them, there will never be labour peace on the waterfront," he added.
After 33 consecutive hours of negotiations, the talks between the two parties "temporarily" paused on Sunday evening, and the talks would resume on Monday, the union said in a statement.
The walkout could have serious consequences for Canada's economy and small businesses, the Canadian Federation of Independent Business said on Saturday.

A prolonged strike would further fuel price pressures, just as the Bank of Canada has resumed its interest rate hike campaign to bring inflation back to its 2% range.
The union is seeking a deal to protect workers jobs and recognition for the sacrifices the staff made during the pandemic. Their main demands also include stopping outsourcing of work and to limit the impact of port automation on current and future generations of workers.

Picture of the Day

A solar panel park and wind turbines are seen in Geldermalsen, Netherlands June 28, 2023. REUTERS/Piroschka van de Wouw

(Inside Commodities is compiled by Sreshtha Uniyal in Bengaluru)

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

To subscribe to Inside Commodities newsletter, **click here**.

Refinitiv
28 Liberty Street, New York, NY 10005

Please visit: **Refinitiv** for more information.

Privacy statement

REFINITIV
An LSEG Business