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Top News - Oil

China's refinery output at 6-month low as weak fuel demand hurts

China's refinery output fell 3.7% in June from a year earlier, official data showed on Monday, down for a third month amid planned maintenance, while lower processing margins and lacklustre fuel demand pushed independent plants to cut output. Refiners processed 58.32 million metric tons of crude oil in June, data from the National Bureau of Statistics (NBS) showed, equivalent to 14.19 million barrels per day (bpd), for the year's lowest levels so far.

Output for the first six months was 360.09 million tons, or 14.44 million bpd, down 0.4% from the corresponding period last year, the data showed, for the first decline in year-to-date volumes since the end of 2022, according to Reuters' records.

The subdued production reflects the broadly sluggish economic recovery and refiners' narrowing processing profits, analysts and traders have said.

While a few state-run refiners have resumed operations after planned overhauls, operational levels at smaller independent processors in the eastern refining hub of Shandong province dipped further in late June to 50.92% of their capacity, according to estimates by Chinese consultancy Oilchem.

That is the lowest since at least the start of 2023 and down from 61.08% a year earlier, Oilchem data showed.

"Smaller plants are really struggling with very weak margins, as demand, especially diesel, is falling behind expectations," said a Shandong-based crude oil trading manager with an independent refiner.

During January and May, Chinese gasoline demand dropped nearly 2% on the year, with diesel down 14%, according to commodities consultancy Sublime China Information.

China's economy grew much slower than expected in the second quarter, as a protracted property downturn and job insecurity squeezed domestic demand. Both industrial output and retail sales slowed in June. NBS data also showed China's crude oil production in June rose 2.4% from a year earlier to 17.95 million tons, or about 4.37 million bpd.

That is the highest daily volume since June 2015, Reuters' records showed, an illustration of national oil companies' efforts to ramp up domestic production from offshore fields and deeper onshore reservoirs to boost supply security.

Year-to-date crude oil output expanded 1.9% on the year to 107.05 million tons, or 4.29 million bpd. Natural gas production jumped 9.6% last month from a year earlier to 20.2 billion cubic metres (bcm), and first-half output this year rose 6% to 123.6 bcm.

GRAPHIC-Oil trades in narrow range since 2022 on OPEC+, sanctions and demand worries

Brent crude oil has been trading in a tight range of $75-$90 a barrel since late 2022 as OPEC+ cuts keep a floor under prices while sizeable spare capacity, demand uncertainty and sanctions policy prevent the market breaking higher.

After a series of gradual production increases that started in early 2021 which unwound historic cuts agreed during the coronavirus pandemic, OPEC+ announced new production cuts in October 2022 and since then has cut output further.

"OPEC+'s need to maintain stable prices, elevated hopes of falling inflation and possible rate cuts every time oil dips below $80 puts a floor under the market," PVM oil analyst Tamas Varga said.

As a result of the cuts, the Organization of the Petroleum Exporting Countries and allies, known as OPEC+, have a sizeable spare capacity, and this is limiting the upside for prices, UBS analyst Giovanni Staunovo said.

The International Energy Agency estimates spare production capacity at a historically high 5.8 million barrels per day, nearly 6% of oil consumption, including 3.3 million bpd in Saudi Arabia, 1 million bpd in the UAE, and 600,000 bpd in Iraq.

This means conflict in the Middle East, typically supportive for prices due to a perceived greater risk of disruption to supply, has had a limited impact on oil prices this year.

"People are not even pricing in a huge risk premium for the Middle East because OPEC and Saudi Arabia can handle it," BNP Paribas analyst Aldo Spanjer said.

Uncertainty over demand growth has also limited price rises.

"Today we see a well-supplied oil market with a rather pronounced stagnation of demand in the Western world and China," Julius Baer analyst Norbert Ruecker said.

The IEA said Chinese demand contracted in April and May.

"We do not have a pronounced shortage of supply at present and the market has really moved on from the two wars that continue to rage," RBC Capital Market's analyst Helima Croft said, referring to the Israeli war in Gaza and Russia's invasion of Ukraine.

The Israel-Hamas war has not led to any supply shutdowns in the region, with the impact being limited to ships avoiding the Red Sea due to attacks by Yemen's Houthi rebels.

Western sanctions on Russia and price caps by the European Union have had a limited impact on Russian crude and fuel exports as new buyers emerged in China and India.

Top News - Agriculture

Kremlin, asked about possible resumption of Black Sea grain deal, says it does not rule anything out

Russia does not rule out any scenarios regarding the possible resumption of the now-defunct Black Sea grain deal, Kremlin spokesman Dmitry Peskov told reporters on Friday.

On Thursday, Turkish President Tayyip Erdogan, speaking after a meeting with his Ukrainian counterpart Volodymyr Zelenskiy, said they had discussed navigational security in the Black Sea, including the grain deal.

Russia allowed the Turkish- and United Nations-brokered deal, which for a year facilitated Russian and Ukrainian agricultural exports via the Black Sea, to expire in July 2023.

At the time, it said that it would only renew the deal if obstacles to its own agricultural goods reaching world markets were lifted.

Asked about a possible renewal of the deal on Friday in light of Erdogan's comments, Peskov said: "The Kremlin does not rule out any agreements. The Kremlin has said, President (Vladimir) Putin has repeatedly said, that he is open to dialogue."

Peskov said any agreement on grain would have to be reached as part of a package of issues "within the general context of the current situation".

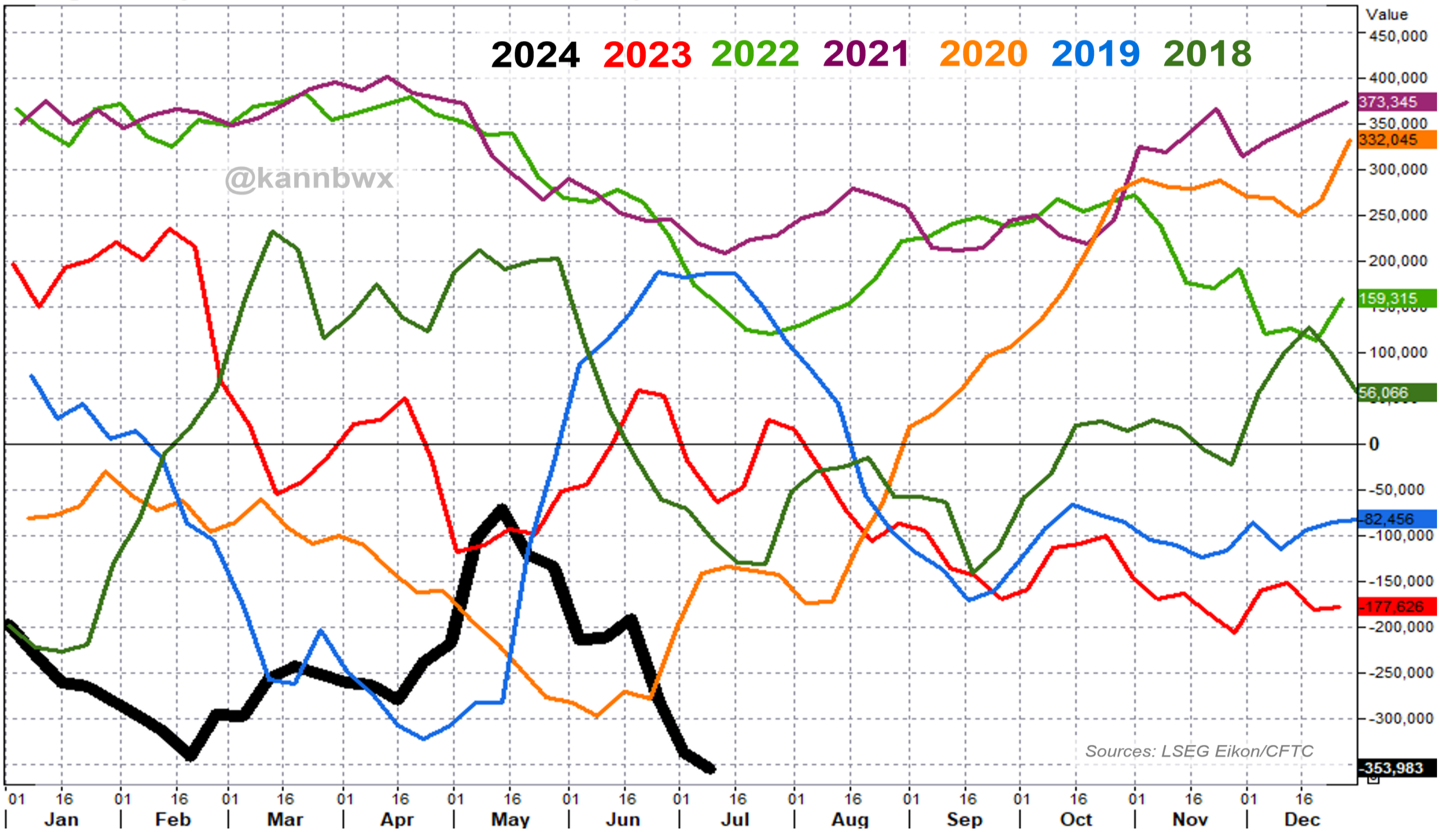
COLUMN-Funds build all-time net shorts in CBOT corn and soybeans -Braun

Speculators last week established record net short positions in both Chicago corn and soybean futures and options as prices tumble further amid ample supply outlooks.

Money managers had reached record net shorts earlier this year, though new-crop CBOT corn and soybean futures have declined 10% and 7% since then, respectively. The timing of funds' all-time bearish stances is historically unusual as they have come during a sensitive time for U.S. crop development, but the weather has been mostly yield-supportive.

Chart of the Day

Managed Money Net Position - CBOT Corn Futures + Options



Sources: LSEG Eikon/CFTC

However, data from the U.S. Department of Agriculture on Friday painted a much less comfortable picture of U.S. corn supplies than traders expected, which could justify a temporary price bottom or even some nearby short covering.

In the week ended July 9, money managers boosted their net short position in CBOT corn futures and options to 353,983 contracts from 336,538 a week earlier, almost entirely on new gross shorts.

In CBOT soybeans, money managers lifted their net short position to 172,605 futures and options contracts from 140,926 a week before, also dominated by new shorts. Some 92% of that position was built in the latest six weeks, one of funds' biggest soy selling streaks.

Money managers' previous record net shorts in CBOT corn and soybean futures and options were 340,732 and 171,999 contracts, respectively, set in the weeks ended Feb. 20 and March 5.

Prior to 2024, the record managed money net short in corn was 322,215 contracts on April 23, 2019, and for soybeans it was 168,835 contracts on May 14, 2019.

Combined open interest for CBOT corn and soybean futures and options of 3.08 million contracts is the third highest ever for the second week of July, behind 2018 and 2019. It is also about 6% above the five-year average for all weeks.

CBOT December corn and November soybeans both fell 3% in the week ended July 9, but corn popped 1.5% in the following three sessions while beans fell 1.4%.

December corn on Friday settled at $4.14-3/4 per bushel, down 17.6% since the start of 2024, and November beans settled at $10.65-1/4, down 14.5% so far this year.

SOY PRODUCTS AND WHEAT

CBOT December soybean oil reached three-month highs earlier in July, and futures rose as much as 4.6% in the week ended July 9 despite the overall 1% decline.

Money managers in that week slashed their net short in CBOT soybean oil futures and options to 17,018 contracts from 61,854 a week earlier and 108,483 two weeks prior.

That two-week net buying of more than 91,000 contracts, largely the result of short covering, is by far the most for any two weeks. The prior max was about 69,000 set in August 2016.

This comes amid an unwinding of long meal-short oil positions, and money managers through July 9 cut their net long in CBOT soybean meal for the fifth time in six weeks. December meal was down about 3% and funds' net long fell to 60,693 futures and options contracts from 73,459 in the week before.

Both meal and oil fell about 1.5% in the last three sessions, and meal futures hit contract lows on Friday.

CBOT September wheat was down 1.5% in the week ended July 9, though futures fell further in the following sessions and matched contract lows on Friday as USDA forecast a strong U.S. wheat crop.

However, money managers last week trimmed their net short in CBOT wheat futures and options by about 5,000 to 69,137 contracts. That is their second-most bearish wheat view for the date after 2016.

Top News - Metals

Weak market for critical minerals seen dampening Western efforts to counter China

Low prices for critical minerals for the green energy transition, such as lithium, cobalt and rare earths, are curbing efforts by the West to fight the dominance of China in the sector, the CEO of U.S. government-backed investment vehicle TechMet said.

Oversupply and weak prices are dampening cashflows of Western start-ups, making it more difficult to compete with a Chinese government investment strategy that takes a long-term view, TechMet CEO Brian Menell said in an interview.

"A lot of the players outside of China are very subject to market moves and sentiment and are therefore slowing down or scrapping projects, but the Chinese are not slowing down their investment," Menell told Reuters this week at the World Materials Forum in Paris.

The price of lithium for instance has tumbled by more than 80% since the beginning of 2023, while key rare earth neodymium has halved in the same period, mainly due to oversupply.

Both Europe and the United States are seeking to curb their dependence on China, which supplies about 90% of global processed rare earths and two-thirds of processed lithium.

Privately-held TechMet has a valuation of more than $1 billion and has stakes in 10 companies, including Brazilian Nickel, Cornish Lithium and Rainbow Rare Earths .

TechMet plans to use the market weakness to invest in more firms, including those involved in lithium and tin.

"If you have money, it's a massive opportunity because there's a lot of short-term stress," Menell said.

Despite a tough funding environment, TechMet is raising an additional $300 million, which Menell expects to finalise in a matter of months.

Some funds may also have to support existing companies, he added.

"Some of our projects may need more investment from us than we expected because cashflows have been reduced by the low prices."

The U.S. government's International Development Finance Corp is one of TechMet's biggest investors. Other major shareholders are commodity trading house Mercuria and the company's management.

China June aluminium output highest in nearly a decade; H1 up 7%

China's production of primary aluminium in June rose to the highest level in nearly a decade, and output in the first half grew 7% as producers ramped up production amid higher profits.

The world's biggest aluminium producer churned out 3.67 million metric tons of primary aluminium, 6.2% higher year on year, data from the National Bureau of Statistics (NBS) showed.

That marked the highest single month of production in Reuters' records that date back to November 2014.

Last month saw China's northern region of Inner Mongolia add some new capacity, and the southwestern province of Yunnan resume most of its production thanks to sufficient hydropower supply in the summer rainy season, according to a report by information provider Shanghai Metals Market.

That brought total production in the first half at 21.55 million tonnes, a rise of 6.9% from the same period last year, NBS data showed.

The rises were fuelled by higher profit margins in the industry thanks to a surge in aluminium prices as investors held an optimistic view of demand for the light metal as well as funds buying into the base metals sector.

The most-traded aluminium contract on the Shanghai Futures Exchange (SHFE) hit a two-year high of over 22,000 yuan ($3,030.39) per ton in late May, up 15% from the beginning of this year. The contract is currently around 20,000 yuan per ton.

Thanks to a price surge and lower electricity costs, the industry enjoyed an average profit margin of 2,818 yuan per ton in the first half of this year, more than doubling from 1,211 yuan a year earlier, according to research house Antaike.

However, the growing output contributed to an inventory build-up in China, where demand has been subdued by a protracted property crisis and surging prices.

Aluminium is mainly used in construction, transportation and packaging.

Deliverable stocks in SHFE warehouses piled up over recent months to a 15-month high on Friday.

Smelters are likely to keep production high in the second half, with two China-based metals analysts saying they expect 2024 output to rise by 3% from last year's 41.59 million tons.

Production of ten nonferrous metals - including copper, aluminium, lead, zinc and nickel – rose 7.5% to 6.61 million tonnes from a year earlier. Year-to-date output was up 7.1% at 39 million tonnes. The other non-ferrous metals are tin, antimony, mercury, magnesium and titanium.

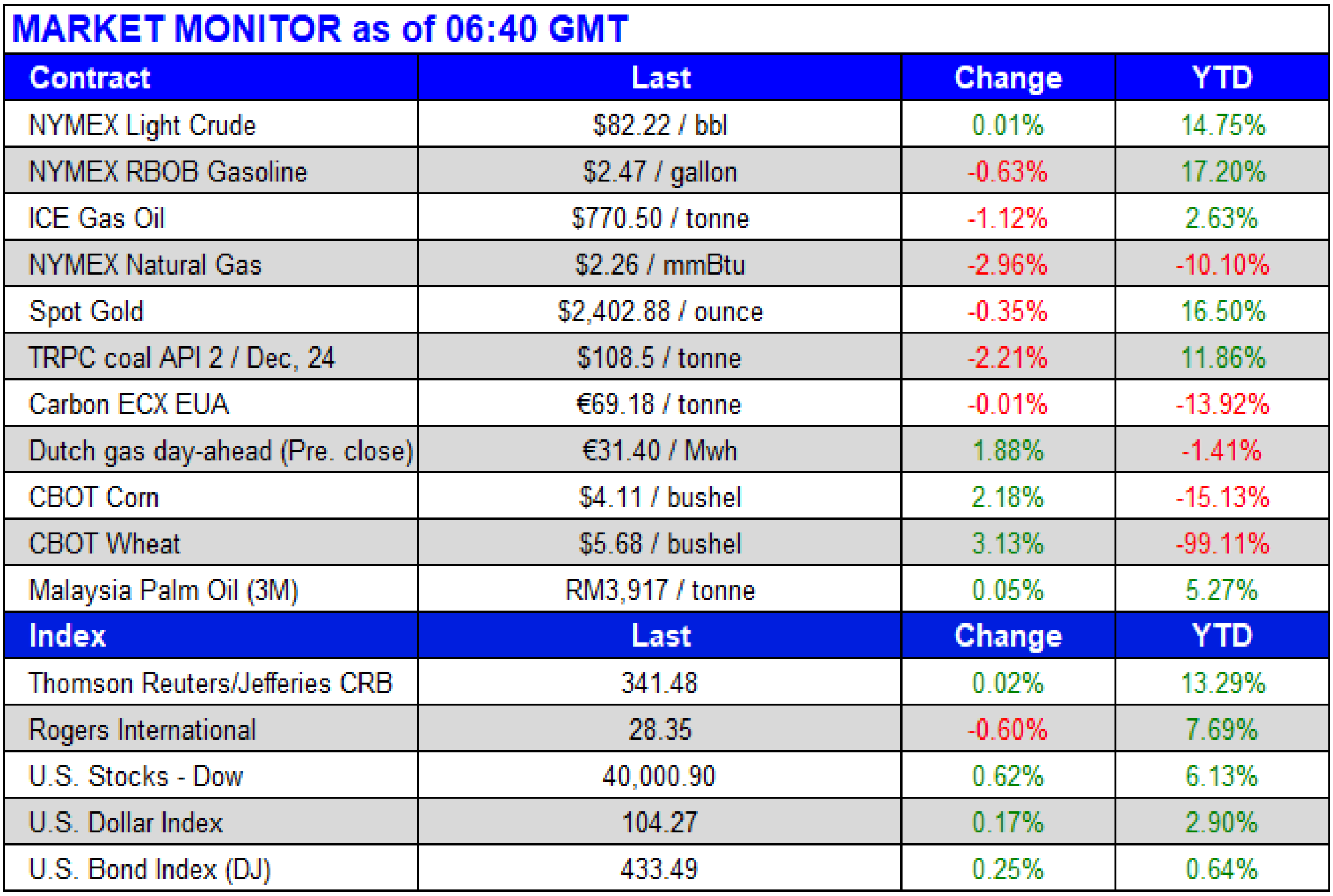
Top News - Carbon & Power

Shell's bet on gas boom takes shape with string of deals

Shell has replaced liquefied natural gas (LNG) volume it lost after exiting Russia in 2022 with a string of deals that underpin CEO Wael Sawan's bet on growing demand for the fuel as he reduces the focus on renewable energy.

The new projects in the United Arab Emirates and Trinidad and Tobago and the acquisition of a large trading portfolio put Shell half way to achieving its target to increase LNG volumes by up to 20 million metric tons per year (mtpa) between 2023 and 2030, according to analysts and Reuters calculations.

They also allow the British company to recover supplies lost when it pulled out of Russia after Moscow's invasion



MARKET MONITOR as of 06:40 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$82.22 / bbl	0.01%	14.75%
NYMEX RBOB Gasoline	$2.47 / gallon	-0.63%	17.20%
ICE Gas Oil	$770.50 / tonne	-1.12%	2.63%
NYMEX Natural Gas	$2.26 / mmBtu	-2.96%	-10.10%
Spot Gold	$2,402.88 / ounce	-0.35%	16.50%
TRPC coal API 2 / Dec, 24	$108.5 / tonne	-2.21%	11.86%
Carbon ECX EUA	€69.18 / tonne	-0.01%	-13.92%
Dutch gas day-ahead (Pre. close)	€31.40 / Mwh	1.88%	-1.41%
CBOT Corn	$4.11 / bushel	2.18%	-15.13%
CBOT Wheat	$5.68 / bushel	3.13%	-99.11%
Malaysia Palm Oil (3M)	RM3,917 / tonne	0.05%	5.27%
Index	**Last**	**Change**	**YTD**
Thomson Reuters/Jefferies CRB	341.48	0.02%	13.29%
Rogers International	28.35	-0.60%	7.69%
U.S. Stocks - Dow	40,000.90	0.62%	6.13%
U.S. Dollar Index	104.27	0.17%	2.90%
U.S. Bond Index (DJ)	433.49	0.25%	0.64%

of Ukraine in 2022. The move led to a loss of 2.5 mtpa of supplies from the giant Sakhalin LNG project and a 5% drop in Shell's liquefaction volumes in 2023 compared with the previous year.

LNG became Shell's flagship division following the $53 billion acquisition of BG Group in 2016.

Its integrated gas division delivered nearly half of Shell's $28 billion adjusted earnings in 2023, helped by very strong results from its trading business, the world's biggest LNG trader.

Since taking office in January 2023, Sawan has sought to boost Shell's performance, pulling out of many wind, solar and low-carbon ventures while doubling down on natural gas.

Shell forecasts the LNG market will grow by around 50% by 2040 from around 400 mtpa in 2023 as Asian economies grow and as gas, the least polluting fossil fuel, replaces coal in power generation.

The British company aims to grow its LNG sales volumes by 20% to 30% by the end of the decade to up to 87 mtpa from 67 mtpa in 2023.

On Wednesday, Shell announced it had invested in a 10% stake in Abu Dhabi National Oil Company's Ruwais LNG project that will more than double the plant's output to 15 million tons per year (mtpa) by 2028. It will also buy 1 million mtpa from the plant, which is expected to cost around $5.5 billion, according to Japan's Mitsui 8031.T, another partner.

Shell also shouldered 10% of the engineering and planning costs that preceded Adnoc's final investment decision in the Ruwais facility last month, industry sources told Reuters.

Shell declined to comment.

On Tuesday, Shell said it would go ahead with the development of its 2.7 trillion cubic feet (tcf) Manatee natural gas field offshore Trinidad, which will feed the country's under-utilised 15 mtpa Atlantic liquefaction facility.

And last month Shell agreed to buy Singaporean LNG company Pavilion Energy from global investment company Temasek which gives it access to new gas markets in Europe and Singapore as well as 6.5 mtpa of supply contracts across the world.

HALF WAY

The three deals will get Shell half way to the growth target, said Saul Kavonic, head of energy research at MST Financial.

"These three deals, in addition to LNG projects already underway, should see Shell achieve its 2030 LNG sales growth target, provided they can also offset decline elsewhere in the portfolio," Kavonic said.

Zoë Yujnovich, Shell's Integrated Gas and Upstream Director, told Reuters in late May that around half of the 2030 growth, roughly 11 mtpa, will come from projects under construction such as Qatar's vast expansion of its North Field complex, its LNG Canada project that is expected to go online next year and Nigeria's NLNG facilities.

Shell will also boost operating LNG plants such as its Prelude floating LNG facility off Australia's western coast and the Atlantic facility in Trinidad and Tobago.

Shell aims to maintain a 50-50 ratio between its own LNG production and volumes it acquires from other producers, she added.

The recent investments align with Shell's strategy which sees LNG as a "critical fuel in the energy transition", Accela Research analyst Rohan Bowater said.

"Shell frames LNG as a decarbonisation lever, but it has limited impact" on its target to reduce the carbon intensity of its portfolio by 15% to 20% by 2030, Bowater said.

Increasing the weighting of gas in Shell's portfolio by 10% by 2030 will result in a 4% reduction in net carbon intensity. The same increase in renewables capacity would achieve a reduction of 14%, he said.

China's June coal output rises to six-month high on summer demand

China's coal output rose to a six-month high in June, statistics bureau data showed on Monday, as mines ramped up production to meet seasonal demand and safety inspections that constrained production earlier in the year eased.

The world's largest coal producer mined 405.38 million metric tons of the fuel last month, a 3.6% increase on the year and the highest since December, data from the National Bureau of Statistics (NBS) showed.

The six-month high was calculated by averaging out January-February production, since NBS reports the two months in a combined data release to smooth out the effects of the lunar new year holiday which falls in either month.

Analysts at Galaxy Futures attributed the higher output in June to seasonal effects from the Northern Hemisphere summer increasing demand for air conditioning as temperatures rise.

They also cited an improvement in the rate of deadly mining accidents allowing some mines to restart operations.

Lower production from China's coking coal hub of Shanxi had weighed on output during the March-May period after the local government ordered a series of safety checks following an uptick in deadly accidents, and told miners to curb excess production. The province mined 29% of China's coal last year.

Average daily output in June rose to 13.5 million tons, according to Reuters' calculations using the NBS data, also the highest since December.

Output will continue rising in the third quarter because of seasonal demand, the Galaxy Futures analysts forecast.

But July growth could be constrained by China's third plenum, a key political meeting taking place July 15-18, during which authorities are expected to maintain some restrictions on output to avoid accidents.

The lower output during January-May continued to weigh on the year-on-year comparison for the first half of 2024. Output in the January-June period was 2.27 billion tons, down 1.7% compared with the same period last year.

Top News - Dry Freight

Ukraine's 2024/25 grain exports reach 1.5 mln tons, ministry says

Ukraine's grain exports in the 2024/25 marketing season had risen to 1.5 million metric tons by July 12 from 894,000 tons a year earlier, agriculture ministry data showed on Friday.

Overall exports included 480,000 tons of wheat, 824,000 tons of corn and 186,000 tons of barley.

The ministry has said that the 2024 combined grain and oilseed crop could fall to 77 million tons, including 56 million tons of grain.

Taiwan’s MFIG tenders to buy up to 65,000 metric tons corn

Taiwan's MFIG purchasing group has issued an international tender to buy up to 65,000 metric tons of animal feed corn which can be sourced from the United States, Brazil, Argentina or South Africa, European traders said on Monday.

The deadline for submission of price offers in the tender is Wednesday, July 17, they said.

Price offers in MFIG's tender are being sought for one consignment of yellow corn of between 40,000 tons and 65,000 tons at a premium over the Chicago December 2024 corn contract.

Shipment is sought between Sept. 8 and Sept. 27 if the corn is sourced from the U.S. Gulf, Brazil or Argentina, traders said.

If sourced from the U.S. Pacific Northwest coast or South Africa, shipment is sought during Sept. 23-Oct. 12.

Because of concerns about poor quality, Argentine corn will only be accepted by MFIG if it is the lowest price offered and at least 4 cents per bushel below the next cheapest offer from other origins, traders said.

Picture of the Day

Farmers operate combines while harvesting wheat in a field in the course of Russia-Ukraine conflict, outside the town of Volnovakha in the Donetsk region, Russian-controlled Ukraine, July 12, 2024. REUTERS/Alexander Ermochenko

(Inside Commodities is compiled by Mohammed Nihaal T S in Bengaluru)

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

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