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

Top News - Oil

As Russian oil crosses G7's price cap, US eyes soft enforcement

The Biden administration is poised to increase outreach to western trading houses, insurers and tanker owners to remind them to abide by the Group of Seven's price cap on Russian oil as the crude trades over that level, sources and experts said.

The approach reflects a desire by Washington to encourage buyers to adhere to the $60 per barrel cap imposed last December on sea-borne exports of Russian crude by the G7, the European Union and Australia in retaliation for Russia's war on Ukraine.

The administration is expected to use "soft" tactics, instead of widespread threats of harsh enforcement on potential violators as that could upend energy markets, they said.

"The initial inclination on the part of Treasury is to be soft on it, not to come down like a hammer on tankers and tanker owners, to enforce, but enforce quietly with letters, phone calls," said a source familiar with the administration's thinking on the matter. U.S. officials will likely increase communications with trading houses, tanker owners, insurers and others, reminding them that if western maritime services are used, attestations must be kept showing Russian oil was bought under $60, the source said.

A Biden administration source said such conversations with service providers about their requirements have been constant during the implementation of the caps.

"We've been having these types of conversations already and they will continue," the source said.

The price cap bans Western companies from providing services such as transportation, insurance and financing for the oil sold above the cap.

According to Reuters data, Russian Urals crude has been trading at or above the cap for nearly two weeks. Treasury uses a monthly average of prices to calculate the Urals price, which means it may be a while before the Russian oil price can be considered over the cap.

The Treasury's Office of Foreign Assets Control (OFAC) says individuals or companies who evade, avoid, or violate the cap could face civil or criminal enforcement actions, including fines, and that it will work with other countries to share information about evasion.

"We are hell bent on ensuring that evasions are not distorting the market," a senior U.S. Treasury official said.

'POLICY PICKLE'

The administration, however, is set to move slowly, wary of creating ripples in a market that could send rising global oil prices higher.

The administration is in a "policy pickle" because it does not want to come down too hard with enforcement threats and risk boosting global petroleum prices by interfering with the movement of oil, the source with knowledge of administration thinking said.

"They'll spook the service providers facilitating exports, they certainly don't want to do that."

High consumer energy prices are a political risk for President Joe Biden, who is seeking reelection in 2024.

The cap has always had two objectives: reducing Russia's revenues from oil exports, and ensuring that oil continues to flow to global markets. The administration insists the cap is effective.

Deputy Treasury Secretary Wally Adeyemo has recently spoken with countries with large shipping fleets and shipping trade, while Elizabeth Rosenberg, Treasury's assistant secretary for terrorist financing and financial crimes, has called protection and indemnity insurance providers, known as P&I clubs, to remind players of requirements related to Russian oil purchases, the administration source said.

COSTS TO RUSSIA

Another U.S. government source said that the Urals price is high because of recent deals to countries that are outside the cap. Such sales, mainly to India and China, are expensive for Russia, the source said. Russia has to spend money on a ghost tanker fleet and other expenses to ship oil long distances instead of via pipelines mainly to Europe.

Adeyemo said last month the Russian central bank has guaranteed about $9 billion in a reinsurance scheme intended to replace western reinsurance, due to the price cap, money the Kremlin cannot invest in weapons to fight its war in Ukraine. The State Department is "closely monitoring all vessels engaged in loading of crude oil and petroleum products from Russia, as well as potential evasion or non-compliance, including the use of deceptive practices to access coalition services for oil traded above the caps," a spokesperson said.

If Urals prices continue to climb above the cap, Washington could urge fellow G7 countries and the EU to raise the cap, but that would be a diplomatic and political undertaking that faces resistance from Eastern European countries and U.S. lawmakers.

Ben Cahill, an energy security and climate expert at the Center for Strategic and International Studies, agreed enforcement will proceed slowly. "We could see stronger enforcement on the tanker fleet and the tracking of the ownership of vessels, better quality of attestation of paperwork," said Cahill. "But there won't likely be a dramatic change unless oil prices stay high for a while."

Shell Q2 profits drop to $5 bln after energy prices cool

Shell reported on Thursday profits of $5 billion in the second quarter, dropping by 56% from a year earlier as oil and gas prices cooled after rallying on the back of Russia's invasion of Ukraine.

Shell increased its dividend to $0.33 per share in the quarter, as previously announced in June. It also announced the repurchase of $3 billion in shares over the next three months, compared with $3.6 billion in the previous three months.

Shell's adjusted earnings missed company-provided analyst forecasts of $5.8 billion in earnings.

The results compared with record quarterly earnings of $11.5 billion a year earlier and $9.65 billion in the first quarter of 2023.

Top News - Agriculture

NATO says it's boosting Black Sea surveillance, condemns Russian grain deal exit

NATO said on Wednesday it was stepping up surveillance of the Black Sea region as it condemned Russia's exit from a deal assuring the safe passage of ships carrying Ukrainian grain.

The announcement came after a meeting of the NATO-Ukraine Council, a body established earlier this month to coordinate cooperation between the Western military alliance and Kyiv.

"Allies and Ukraine strongly condemned Russia’s decision to withdraw from the Black Sea grain deal and its deliberate attempts to stop Ukraine’s agricultural exports on which hundreds of millions of people worldwide depend," NATO said in a statement.

"NATO and Allies are stepping up surveillance and reconnaissance in the Black Sea region, including with maritime patrol aircraft and drones," the statement said.

The deal that has allowed the safe Black Sea export of Ukraine's grain for the past year expired on July 17 after Russia quit in a move the United Nations said would "strike a blow to people in need everywhere."

Moscow suggested it would consider reviving the deal if demands to improve exports of its own grain and fertilizer were met.

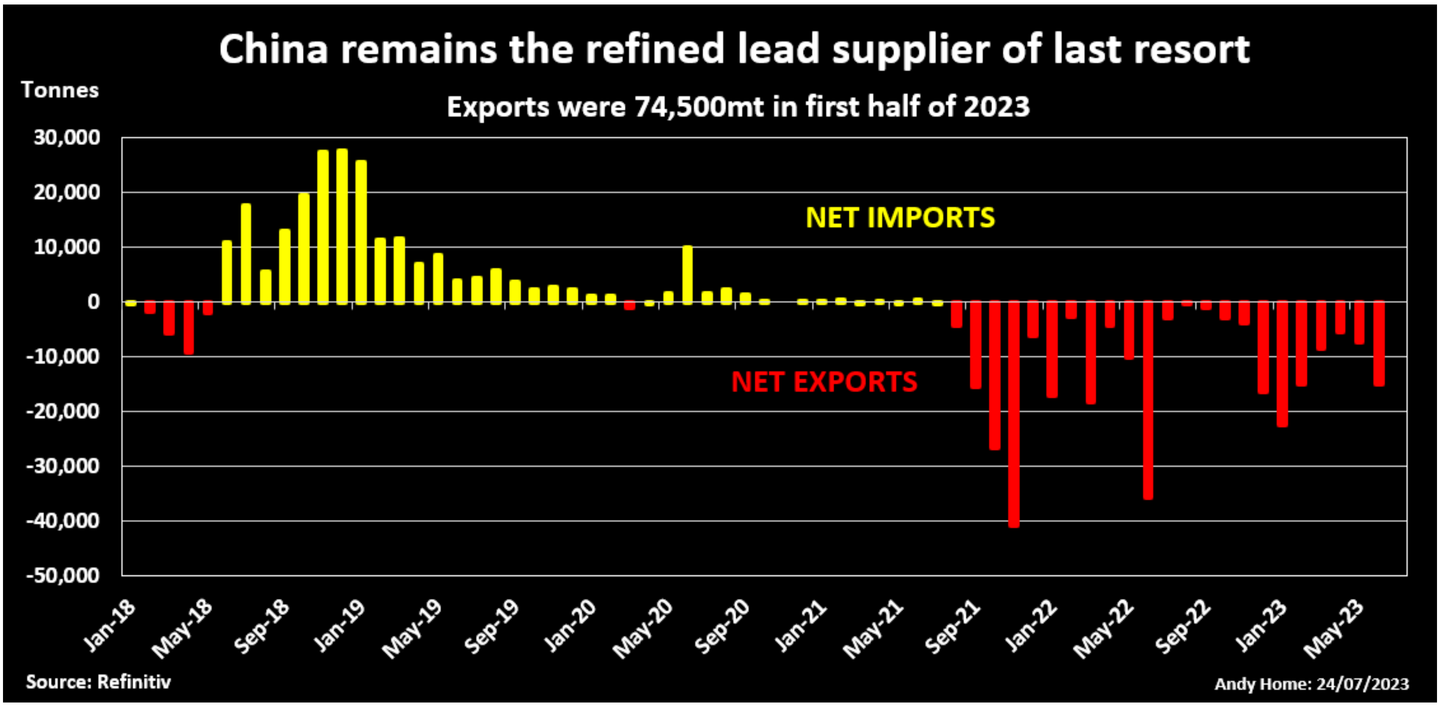
COUNCIL CRITICISES POSSIBLE NAVIGATION THREATS

The NATO statement criticized a Russian warning that parts of the Black Sea's international waters were temporarily unsafe for navigation.

Russia also said that ships travelling to Ukraine's Black Sea ports would be seen as possibly carrying military cargoes.

"Allies noted that Russia’s new warning area in the Black Sea, within Bulgaria’s exclusive economic zone, has

Chart of the Day



created new risks for miscalculation and escalation, as well as serious impediments to freedom of navigation," the NATO statement said.
Bulgaria is a member of NATO. NATO also said it condemned recent Russian attacks on Odesa, Mykolaiv and other port cities, including a drone strike on a Ukrainian grain storage facility in the Danube port city of Reni, near the border with NATO-member Romania. "We remain ready to defend every inch of Allied territory from any aggression," NATO Secretary General Jens Stoltenberg said.
Ukrainian President Volodymyr Zelenskiy welcomed the Council's "clear and unequivocal condemnation" of Russia's pullout from the grain deal. "Established only two weeks ago in Vilnius, the Council has already proved to be an effective mechanism for crisis consultations," Zelenskiy posted, in English, on messaging platform X, formerly known as Twitter.
Ukraine, he wrote, would "continue to fulfil its obligations in providing global food security... We stay united with the Alliance as we are moving along the path towards our NATO membership."
The Council was set up at the Alliance's summit this month in Lithuania, where members offered Kyiv ammunition and weapons but could not consider membership while Ukraine is at war.

Agritel estimates French 2023 soft wheat harvest at 34.8 mln T

The soft wheat harvest in France, the European Union's main grower, will rise 3.3% to 34.82 million metric tons this year, a "disappointing" volume mainly due to dry weather in large parts of the country, consultancy Agritel said on Wednesday.
The 2023 crop would still be 1.3% above the average of the past five years, Agritel, Argus Media's agriculture analytics arm said, based on a survey of industry players on July 20-25.
"Late frosts in April in eastern France and, above all, a total lack of rain from mid-May to mid-June strongly reduced the production potential at the end of the cycle in the northern two-thirds of the country," it said in a statement.
Two to three million tons of soft wheat crop potential were lost in May-June, Agritel Director General Gautier Le Molgat said.
Agritel's forecast was based on the farm ministry's area estimate of 4.77 million hectares, up 1.5% on 2022, and a yield of 7.30 tons per hectare. The farm ministry earlier this month had pegged the 2023 soft wheat crop at 35 million tons.
The French soft wheat harvest is not over yet with field work halted by rains in many parts of the country.

Top News - Metals

EU steel demand to slide 3% in 2023; industry group cuts outlook

Steel demand in the European Union is expected to slide 3% this year amid persistently high energy prices and sluggish demand, the European Steel Association (Eurofer) said on Wednesday, downgrading its outlook.
In May, the industry group said steel consumption was due to decline by 1% in 2023, but lingering uncertainty meant that the prospects for this year have deteriorated, a statement said.
"The European steel industry has been navigating through numerous challenges for a long time now, from the pandemic to the energy crisis and other ongoing disruptive factors," said Eurofer Director General Axel Eggert.
The EU steel sector produces about 152 million metric tons of steel per year at about 500 sites with turnover of 130 billion euros ($144.04 billion).
The decline of apparent steel demand in 2023 would mark the fourth negative performance in the past five years, the group said.
Apparent steel demand measures steel output plus imports net of exports and incoming material being further processed in the bloc.
Eurofer, however, was more optimistic about 2024, upgrading its forecast to a rise in demand of 6.2% from the 5.4% estimate in May.
In the first quarter - the most recent actual data available - steel consumption crumbled 11.7% year-on-year to 34.5 million metric tons, an improvement over the 19.3% drop in the final quarter of last year, a statement said.
Output in steel-using sectors such as auto, transport and construction is expected to slow to growth of 1.3% this year from a rise of 3.1% in 2022, Eurofer said.
"The rest of 2023 is expected to be characterised by a combination of uncertainty in energy prices, low industry demand and inflation-driven economic challenges," the report said.
Total steel imports tumbled 28% year-on-year in the first quarter due to the weak demand, but the share of imports compared to consumption was 22%, which is high in historical terms, it added.

Australia to add to priority critical minerals by year end

Australia will update its critical minerals list by the end of the year, its resources minister said on Thursday, potentially opening the way for copper and nickel miners to tap government incentives and speed up new project development.
One of the world's biggest suppliers of raw minerals, Australia last month set out a strategy to work with investors and international partners to build a critical minerals processing industry.

The strategy drew some criticism because it did not lay out a regulatory fast track or add to its list of minerals considered critical to the energy transition.
Minister Madeleine King said the government would prioritise support for critical minerals projects that underpin key technologies such as battery chemicals and would update the list by the end of the year after a consultation period.
The current list, last updated in March 2022, includes 26 minerals with supply chains that are considered vulnerable to disruption, such as lithium, cobalt and rare earths.
The new Australia chief of the world's biggest miner BHP Group Geraldine Slattery said uranium should also join the list, as she flagged Australia was at risk of losing its competitive advantage in the critical minerals space.
"Australia can't compete on subsidies with large economies like the U.S. But we can make sure that our policy settings are attractive to new investment," she said at a business event on Thursday.
Industry Association AMEC wants copper and nickel added to the list and said on Thursday it would consult with its members on which other minerals could be added.
BHP is Australia's biggest producer of copper and nickel which it regards as key growth commodities exposed to the energy transition. It sells uranium as a byproduct from its South Australian copper operations.
Australia is suffering from some unattractive policy settings and falling productivity, while its critical minerals are more costly to extract than the vast deposits of iron ore and coal that have for decades underpinned its economy, Slattery said.
Copper and nickel deposits, for example, are more remote or deeper underground and so more expensive to dig than Chile's copper and Indonesia's nickel.
BHP wants the government to harmonise regulations to speed up permitting and reduce duplication, as Canada is doing, Slattery said, adding that Australia needs to develop a bigger labour pool and better tap mining technology.

MARKET MONITOR as of 06:46 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$79.39 / bbl	0.77%	-1.08%
NYMEX RBOB Gasoline	$2.85 / gallon	0.33%	14.99%
ICE Gas Oil	$838.00 / tonne	0.69%	-9.01%
NYMEX Natural Gas	$2.63 / mmBtu	-1.50%	-41.34%
Spot Gold	$1,975.73 / ounce	0.18%	8.29%
TRPC coal API 2 / Dec, 23	$128 / tonne	-3.94%	-30.72%
Carbon ECX EUA / Dec, 23	€89.98 / tonne	-0.95%	7.16%
Dutch gas day-ahead (Pre. close)	€32.33 / Mwh	-0.98%	-57.22%
CBOT Corn	$5.49 / bushel	0.18%	-18.99%
CBOT Wheat	$7.52 / bushel	1.31%	-7.07%
Malaysia Palm Oil (3M)	RM4,053 / tonne	-0.22%	-2.90%
Index (Total Return)	**Close 26 Jul**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	313.54	-0.35%	4.05%
Rogers International	27.68	-0.75%	-3.45%
U.S. Stocks - Dow	35,520.12	0.23%	7.16%
U.S. Dollar Index	100.89	-0.46%	-2.55%
U.S. Bond Index (DJ)	411.13	0.22%	4.53%

Top News - Carbon & Power

Energy-hungry Europe to brighten profit at US solar equipment makers

Solar equipment makers are expected to post higher quarterly profit, benefiting from strong demand in Europe for critical components that convert energy from the sun into electricity.

The continent is emerging as a major market for solar firms as it looks to reduce its dependence on the Russian energy supply and accelerate its clean energy transition, brightening up businesses of companies such as Enphase Energy and SolarEdge Technologies, which make solar inverters.

Wall Street expects Enphase and SolarEdge to post a combined adjusted net income of $323.8 million for the April-June quarter, a 56.7% jump from a year earlier, even as demand growth slows in the United States.

The energy crisis in Europe is not as acute as last year when Western sanctions on Russia severely crimped supplies, but prices of natural gas and electricity continue to be much higher than in the United States, Raymond James analyst Pavel Molchanov said.

As a result, demand for residential solar keeps growing at a strong pace in the region, with Germany being one of the top markets.

About 159,000 residential solar systems became operational in the first quarter in Germany, a 146% rise from a year earlier, according to BSW solar power association.

Adoption of solar is also helping European homeowners have greater control over their energy costs as fossil fuel prices tend to be more volatile, Morningstar analyst Brett Castelli said.

SolarEdge, which has a bigger exposure to Europe than Enphase, said its first-quarter revenue from the continent more than doubled compared with last year.

In comparison, growth in the United States has been tepid due to lukewarm demand in states like Texas and Arizona where cheaper electricity prices make the economics of residential solar less attractive.

Higher interest rates following the U.S. Federal Reserve's recent actions to tame inflation are also weighing on demand.

Analysts also expect weakness in California where a new metering reform reduces the money credited to rooftop solar owners for sending excess power into the grid. The sunshine state accounts for nearly a third of the U.S. residential solar market.

Enphase will report its results on Thursday after the bell, while SolarEdge will release its second-quarter numbers on Aug. 1.

Most European firms have no revenue or capex aligned with EU green criteria – analysis

Nearly two-thirds of European companies do not have any revenue that meets the EU's list of climate-friendly activities, and half have no planned capital expenditure that can be considered green, according to a new analysis published on Thursday.

The European Union's taxonomy classifies economic activities that can be marketed as sustainable to improve transparency and encourage investment towards fighting climate change.

Companies are now required to disclose how much of their revenue is in line with the taxonomy. Aligning with the green criteria means revenues generated from climate -friendly industries such as renewable energy, or other industries that meet certain criteria - for example, a steel plant that produces emissions below a certain level.

An analysis by sustainability data firm ESG Book of 683 companies, representing 40% of European market capitalisation, found that the average share of company revenue aligned with the taxonomy was 8% while for capex - which captures corporate long-term spending plans - it stood at 13%.

More than 60% of European companies studied had zero revenue aligned with it, and 50% had no aligned capex, ESG Book found. "The scale of the challenge [towards a lower-carbon economy] is made much much clearer," said Leon Saunders Calvert, ESG Book's chief product officer. "For many businesses that have to go through a transition you would want and expect more of their capex being made in a way that drives towards alignment."

He added that the findings underlined the extent to which, for example, automakers still make far more money from combustion engines than electric vehicles, and energy firms from fossil fuels rather than renewables.

Analysts say data generated from the EU taxonomy - one of several sustainability classification systems emerging globally - is useful because it shows how and where companies are making money. Most environmental, social and governance (ESG)-related data measures companies' exposure to ESG risks.

Very low levels of alignment partly reflect the newness of the regulations and Calvert said reporting should improve with time but the "reality is that alignment is low".

The taxonomy does not capture revenues which are climate-neutral, and Calvert cautioned that companies without much revenue meeting the green criteria are not necessarily a problem.

ESG Book's analysis also found that six companies had 100% of their revenue aligned including an Italian energy provider with natural gas in its baseload.

Top News - Dry Freight

Odesa region port infrastructure hit by overnight Russian attack -governor

Russia hit port infrastructure in Ukraine's Odesa region in overnight missile attack, killing a security guard and damaging a cargo terminal, the region's governor said on Thursday.

Odesa's ports have been regular targets for Russian attacks since Moscow last week withdrew from the Black Sea grain initiative, the Turkey and UN-brokered agreement which allowed Ukrainian grain to be exported from Odesa's ports for nearly a year.

Odesa Governor Oleh Kiper said Russia fired Kalibr missiles at an unspecified port from a submarine in the Black Sea. He said a security building had been destroyed and two cars damaged.

Ukraine's air force said it wasn't able to shoot down the Kalibr missiles, although it said it had downed eight drones overnight in other regions of Ukraine.

Natalia Humeniuk, spokesperson for Ukraine's southern military command, said an overnight thunderstorm had helped Russia in the attack. "The enemy took advantage of the weather conditions, and launched the missile during the thunder and wind and at an extremely low height in order to make spotting them more difficult."

China loads 750,000 tons of sugar in Brazil, year's largest import volume

Chinese buyers are currently loading dozens of vessels with around 750,000 metric tons of sugar at Brazilian ports, the first large import movement from the Asian country in 2023, according to shipping data compiled by Reuters.

China is traditionally the world's largest sugar importer. Its movements in the market tend to influence benchmark prices for raw sugar in New York.

The country has been very quiet in the import market in 2023. Data provided by shipping agency Williams showed that China loaded only 170,000 tons of sugar in Brazil - the world's largest exporter - in the first semester, compared to 1.35 million tons at the same period the previous year.

Commodities analysts Green Pool said in a report earlier this month that Chinese sugar stocks were running low after their long absence from the import market. According to shipping data, state-controlled Chinese commodities trader COFCO International is doing most of the export deals, having nominated seven vessels to load sugar at Brazilian ports, while Singapore-based trader Wilmar has nominated six ships.

Among other traders loading sugar for China in Brazil are Alvean, Sucden and Enerfo.

Independent sugar analyst Claudiu Covrig estimates that Chinese buyers closed an even larger volume of imports in total, mostly from Brazil as the country is usually the sole large exporter in the market in the second half.

He estimates total deals at 3 million tonnes, with loadings spread from now until December.

The Chinese buyers are said to have closed most of the deals when there was a downward correction in the market last month. Sugar prices fell to a three month low late in June, after hitting an 11-year high late in April. Covrig said no more deals have been reported lately.

Brazil is expected to have a near record sugar season in 2023/24 as the weather has been positive.

Picture of the Day

A steel worker in heat protection gear is silhouetted against the fire of a furnace at the steel plant of ThyssenKrupp in Duisburg, Germany, July 26, 2023. REUTERS/Wolfgang Rattay

(Inside Commodities is compiled by Archak Sengupta in Bengaluru)

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

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