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Top News - Oil

COLUMN-Oil bulls retreat as inventories stay plentiful: Kemp

Portfolio investors have soured on the outlook for petroleum prices as an anticipated large depletion of inventories during the third quarter has failed to materialise. Hedge funds and other money managers sold the equivalent of 103 million barrels in the six major futures and options contracts over the seven days ending on July 23. Combined sales over the last three weeks had totalled 144 million barrels, according to records filed with ICE Futures Europe and the U.S. Commodity Futures Trading Commission.

As a result, funds had cut their net position to just 380 million barrels (19th percentile for all weeks since 2013) from a recent high of 524 million (35th percentile) on July 2. The most recent week saw sales across the board in Brent (-38 million barrels), NYMEX and ICE WTI (-31 million), European gas oil (-21 million), U.S. gasoline (-9 million) and U.S. diesel (-5 million).

The peak summer consumption season has already passed the half-way point and there has been only a modest depletion of inventories so far. U.S. stocks of crude oil and refined fuels such as gasoline and diesel have remained close to long-term seasonal averages in recent weeks. Ample inventories have sapped some of the incipient bullishness among traders and caused spot prices, calendar spreads and crack spreads to retreat.

Funds remain neutral or mildly bearish about U.S. crude but have become very bearish towards Brent and all the refined fuels. The expected recovery in manufacturing across North America, Europe and China has run out of momentum since the start of April. And high interest rates continue to deter purchases of expensive durable items such as new cars, home appliances and electrical equipment.

On the services side, there are also signs the post-pandemic surge in travel and tourism has peaked as a result of high prices and cost-of-living pressure on consumers. The expected depletion of global petroleum inventories has already been pushed back multiple times this year; now it looks like it has been deferred again.

U.S. NATURAL GAS

Investors purchased futures and options linked to U.S. gas prices for the first time in five weeks as inflation-adjusted prices slumped back down towards multi-year lows. Hedge funds and other money managers purchased the equivalent of 151 billion cubic feet (bcf) of futures and options linked to gas prices at Henry Hub in Louisiana over the seven days ending on July 23. Small-scale buying came after they had sold 980 bcf over the previous four weeks, according to position records filed with the futures regulator. Working gas inventories remain well above average for the time of year and show only limited if any sign of normalising after an exceptionally mild winter in 2023/24. Stocks are the second-highest on record for the time of year and still 479 bcf (+17% or +1.35 standard deviations) above the prior 10-year seasonal average. The surplus has narrowed slowly despite hotter-than-normal temperatures elevating airconditioning demand so far this summer, slow wind speeds, and low gas prices encouraging more gas-fired generation. The U.S. airconditioning season has now passed the usual half-way point limiting the potential for further depletion; working inventories are very likely to start the winter heating season higher than average. The persistent surplus has caused front-month futures prices to slump to less than $2 per million British thermal units in an effort to maximise gas-fired generation and limit further stock accumulation. After adjusting for inflation, front-month prices are in only the 2nd percentile for all months since the start of the century. Ultra-low prices seem to have tempted at least some fund managers to book profits by repurchasing previous bearish short positions. Short covering accounted for two-thirds of all the buying in the most recent week. More generally, however, ,the hedge fund community remains very cautious about the potential for a rebound even from the current exceptionally low price level. Fund managers held a net position of just 341 bcf in the two major contracts, in only the 42nd percentile for all weeks since 2010.

The opinions expressed here are those of the author, a columnist for Reuters.

Brazil's Petrobras second-quarter oil production rises 2.6%

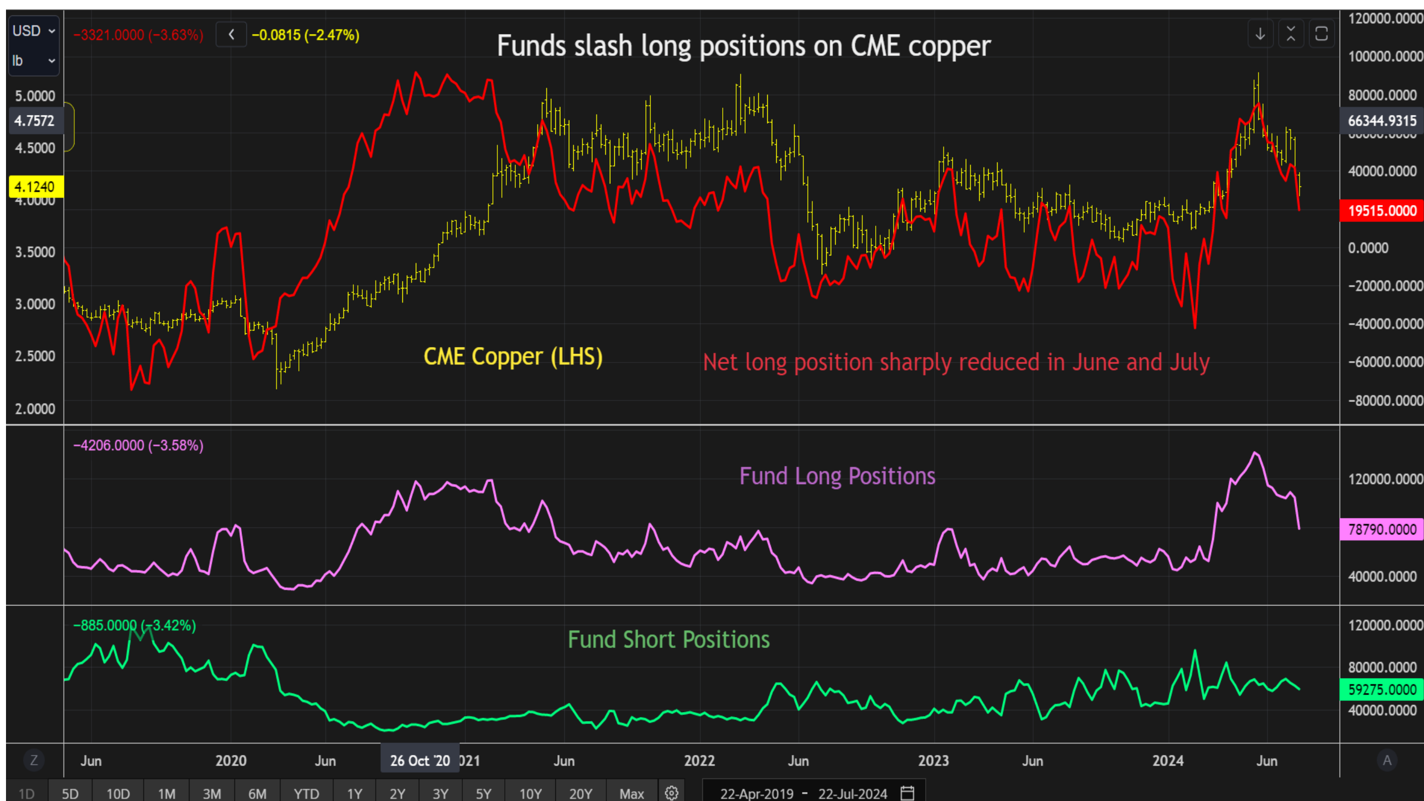
Brazilian state-run oil company Petrobras said on Monday its crude oil production during the second quarter rose 2.6% from the year-ago period after it ramped up five oil platforms and started production in 12 wells. Petrobras pumped 2.16 million barrels per day (bpd) from April to June, and produced 2.7 million barrels of oil equivalent per day (boepd), a 2.4% increase over the same period in 2023, the company said in a statement.

Production from the firm's pre-salt fields, an oil-rich offshore region off the country's southeastern Atlantic coast, grew 6.3%, helping offset a decrease in production on Petrobras' other fields.
Sales of oil gas and derivatives reached 2.94 million boepd, a 4% increase over the year. While sales to the domestic market fell 4.4%, they were compensated by a 30% growth in sales to the foreign market.
Total exports rose 36% on a year-on-year basis, with 851,000 bpd of oil and derivatives exported in the period.
Oil exports rose 58% in the period.
The period marked the continuing of a trend for the firm's exports - with 50% of all oil exports now going to China, up from 28% in the second quarter of 2023.
Europe also grew as a destination for Petrobras oil exports responding for 30%, up from 20% last year. Latin America decreased its share from 26% to 5% in the period.
Petrobras is expected to post its full financial results for the second quarter on Aug. 8.

Top News - Agriculture

Freezing temperatures threaten Argentina's wheat crops
Freezing temperatures in Argentina's main agricultural region on Monday aggravated the condition of the 2024/25 wheat crop, which is already suffering from the impact of a major drought, the Rosario grains exchange said in a report.
Argentina is a key global wheat exporter, but due to a significant lack of rainfall in its agricultural core, the grains exchange earlier this month reduced its forecast for the area planted with wheat by 2.9% to 6.7 million hectares.
"We are talking about minus four degrees (Celsius) in the northern area of Buenos Aires (province)," said the exchange's head of agricultural estimates, Cristian Russo, according to the statement, which detailed that the region is reporting the driest month of July in nearly six decades.
"The combined effects of cold weather and lack of water have caused the death of seedlings and uneven plots, especially in the area of Pergamino," an important agricultural town, the report added.
Rain is expected in the humid Pampas in the first days of August, but it would not reach the volume necessary to recover soil moisture level, the exchange added.
"Without adequate rainfall in the next 15 days, wheat will face further damage due to water stress and low temperatures," the exchange said.

Chart of the Day



LSEG DATA & ANALYTICS

Strategie Grains cuts EU rapeseed and sunseed crop forecasts again

Strategie Grains has again reduced its monthly forecasts for this year's rapeseed and sunflower seed harvests in the European Union as unfavourable weather continued to affect the bloc's main oilseed crops, the consultancy said.

The firm cut its outlook for the EU's 2024 rapeseed harvest for the third time in a row. It pegged output at 17.27 million metric tons, down from 17.80 million forecast a month ago and now nearly 14% below last year's level.

Expected production was revised down mainly in Germany, the Czech Republic, Poland, Hungary and Romania, reflecting both low yields and lower acreage, it said in a summary of an EU oilseed crop report.

Rapeseed harvesting is in its latter stages in Europe. Analysts have been anticipating a smaller EU rapeseed crop after months of heavy rain, including in France where the farm ministry estimates production could fall by almost 8%.

For sunflower seed, harvested in late summer and autumn, Strategie Grains lowered its EU forecast for the second month in a row, now projecting the crop at 9.65 million tons compared with 10.49 million previously.

The steep revision put the forecast below last year's production of 9.80 million tons.

After a wet spring, sunflower crops in eastern Europe have endured a hot, dry start to summer. Strategie Grains said it had reduced its expectations for Romania and Bulgaria, and to a lesser extent Hungary, as July weather was seen hurting yields.

The European Commission last week similarly reduced its monthly forecasts of EU rapeseed and sunflower seed production, now projecting the crops at 18.38 million and 10.14 million tons, respectively.

For the smaller EU soybean crop, Strategie Grains kept its 2024 outlook unchanged at 2.99 million tons, a 4.6% increase on last year in which higher planting is expected to offset a lower yield.

EU rapeseed and sunflower seed stocks were expected to be tight in 2024/25, despite upward revisions to projected imports, and this should lead to higher prices than previously thought, Strategie Grains said.

However, uncertainty over the impact of the EU's incoming deforestation regulation, which will notably cover imports of soybean and palm oil, could lead to volatility in oilseed markets in the short term, it added.

Top News - Metals

BHP and Lundin Mining boost copper access, to buy Filo for $3.25 bln

Global miner BHP Group and Canada-listed Lundin Mining will jointly take over developer Filo Corp for C$4.5 billion ($3.25 billion), the companies said on Monday, as they move to progress the South American projects.

BHP and Lundin will form a 50/50 joint venture to hold both the Filo del Sol and Josemaria projects around the Argentine-Chile border.

BHP and Lundin have offered C$33 per Filo share, reflecting a 12.2% premium to the Canadian copper miner's last close on Monday. Under the deal, BHP is expected to pay a total of $2.1 billion in cash.

Reuters reported on July 12 that Lundin and BHP were weighing a joint bid.

"BHP has been looking to bulk up their copper outlook.

"We are still bullish on the outlook for copper, even though it has come off a long way, the medium term fundamentals remain positive," said analyst Baden Moore of CLSA. The deal is demonstrating to BHP's shareholders that BHP has other strategies to build their copper exposure, although I don't think it means they have definitively walked away from Anglo," he added.

The deal comes as BHP in May walked away from a blockbuster $49 billion bid to take over Anglo American AAL.L which rejected three proposed offers from its bigger rival over the course of six weeks, as it strove to beef up its copper holdings.

It comes as miners race to build out their pipelines of copper, a metal whose use is expected to underpin the energy transition. Shares fell 1% in a downbeat market.

The world's biggest miners are increasingly preferring to buy instead of building assets to grow, given rising costs for developing new mines and a blow-out in time lines for regulatory approvals.

COLUMN-Funds dump copper as rising stocks dampen bull spirits: Andy Home

Funds have slashed their long positions on the copper market as high and rising inventories cause a collective re-think of the market's short-term prospects. Investors rushed to buy copper during the second quarter, betting the metal would benefit from a turn in the economic cycle and a green energy demand booster. The bull narrative was spiced with concern that supply simply wouldn't keep up, creating yawning deficits and potentially explosive higher prices.The reality has turned out slightly different. China, still the engine room of global copper demand, shows no signs of escaping its property drag. Copper stocks in the country are unseasonally high. Worse, Chinese smelters have been exporting large volumes to London Metal Exchange (LME) warehouses. LME inventory last week touched a three-year peak.

The LME three-month price has retreated from its record high of $1,104.50 per metric ton in May to the current $9,000.

The bull party is on hold. For now at least. The consensus remains for higher prices later this year.

BULL RETREAT

Money managers have slashed long positions on the CME copper contract over the course of June and July. Bets on higher prices peaked at 141,204 contracts in May, when the U.S. market was in the grips of a ferocious squeeze. Money managers have since scrambled to get out just as fast they rushed to get in. Long positions have shrunk by 80% to 78,790 contracts. There has been little change in fund positions on the short side, suggesting the action has been a combination of profit-taking by the fortunate and stop-loss selling by the less fortunate on the price retreat. Funds are still collectively net long of CME

copper, but net length has been cut from a May peak of 75,342 contracts to just 19,515 as of the close of business last Tuesday. The London market has seen a similar fund exodus, with the collective net long position contracting from a May peak of 71,899 contracts to 29,694 as of the July 22 close.

TOO MUCH COPPER

Rising copper inventory has undermined a bull narrative of scarcity. Shanghai Futures Exchange (ShFE) stocks this year broke with a seasonal pattern of rapid declines after the lunar new year holidays. They have edged lower in recent weeks but remain above 300,000 tons, a level last seen in 2020 when China was reeling from the first round of its COVID-19 lockdown. A sharp jump in exports, unusual for the world's largest buyer, has added to concerns China's giant manufacturing sector is still struggling to offset demand weakness from the troubled property market. Outbound shipments totalled 231,611 tons in May and June, breaking all previous records. Much of that metal has been shipped to LME warehouses in South Korea and Taiwan, which have seen inflows of 65,050 and 71,600 tons, respectively, since the start of June. Chinese brands represented more than 45% of LME on-warrant stocks at the end of June, up from less than 1% at the start of the year. Copper has also started arriving at CME warehouses, where stocks shrank to just 8,117 tons in July, fuelling the squeeze across the front part of the forward curve. CME inventory has been rebuilt to 12,618 tons with inflows at CME warehouses in Detroit and New Orleans. The relatively modest pace of rebuild reflects the limited delivery options available to shorts. The Chinese metal washing up in the LME system, for example, is not registered for CME delivery.

SUMMERTIME BLUES

Copper inventories often rise over the Northern Hemisphere summer months, but the combination of stubbornly high stocks in Shanghai and China's recent exports have sapped bullish spirits. The lack of any detailed announcements from China's third plenum has added to the sense of disappointment. Investors, it appears, jumped the gun on copper, causing prices to rise too fast and too soon. Analysts at Citi think "copper prices will struggle for direction in the weeks ahead". But the bank forecasts prices to rise to $9,500 per ton within three months and to touch $11,000 early next year. It's not alone. The median forecast of the latest Reuters quarterly poll of analysts was for the cash LME price to recover from $9,737.50 in the third quarter to $10,000 in the fourth quarter. The lowest forecast for the current quarter was $9,200 and that for the next quarter was $9,000. The price is already there. Analysts evidently aren't looking for much more downside with a solid consensus that the bull rally will resume after the summertime blues. Just as long as not too much more Chinese metal turns up in LME warehouses over the next couple of months.

The opinions expressed here are those of the author, a columnist for Reuters.

MARKET MONITOR as of 06:40 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$75.44 / bbl	-0.49%	5.29%
NYMEX RBOB Gasoline	$2.36 / gallon	-0.33%	12.26%
ICE Gas Oil	$728.00 / tonne	-0.58%	-3.03%
NYMEX Natural Gas	$2.06 / mmBtu	1.18%	-18.06%
Spot Gold	$2,388.09 / ounce	0.19%	15.78%
TRPC coal API 2 / Dec, 24	$118 / tonne	5.40%	21.65%
Carbon ECX EUA	€68.68 / tonne	-0.01%	-14.55%
Dutch gas day-ahead (Pre. close)	€33.60 / Mwh	4.35%	5.49%
CBOT Corn	$4.11 / bushel	-0.42%	-15.19%
CBOT Wheat	$5.51 / bushel	-0.81%	-99.14%
Malaysia Palm Oil (3M)	RM3,919 / tonne	0.28%	5.32%
Index	**Last**	**Change**	**YTD**
Thomson Reuters/Jefferies CRB	324.05	-0.84%	7.51%
Rogers International	26.98	-0.57%	2.49%
U.S. Stocks - Dow	40,539.93	-0.12%	7.56%
U.S. Dollar Index	104.64	0.00%	3.27%
U.S. Bond Index (DJ)	432.46	0.41%	0.41%

Top News - Carbon & Power

Chesapeake posts quarterly loss on output drop, lower gas prices

Natural gas producer Chesapeake Energy on Monday reported a loss for the second quarter, compared to a year-ago profit, as production declined and prices remained under pressure. Total average realized price, including hedges, fell 6% amid lukewarm demand due to hotter-than-expected winter and a build-up in storage.

In response to the declining prices, Chesapeake, along with rivals like EQT and Coterra Energy, had curtailed their production earlier this year.

Chesapeake, which is on the cusp of becoming the biggest natural gas producer pending its acquisition of Southwestern Energy, said production during the April-June quarter fell 24.9% to 2.75 billion cubic feet per day (bcf/d).

The U.S. Energy Information Administration expects domestic natural gas production to decline for the remainder of 2024. If the agency's projection is right, 2024 would be the first time output declined since 2020, when the COVID-19 pandemic cut demand for the fuel.

Chesapeake lowered its 2024 capital expenditure forecast by about 4% to the range of $1.2 to $1.3 billion, while it reduced its production expense expenditure by about 8%.

The company, which became a pure-play natural gas producer in 2022, said it expects third-quarter production to range between 2.57 bcf/d and 2.67 bcf/d.

Chesapeake's net loss was $227 million for the three months ended June 30, compared with a profit of $391 million, in the year-ago quarter.

On an adjusted basis, it posted a net income of 1 cent per share, compared with analysts' average estimate of break -even, according to LSEG data.

COLUMN-Power sector drives growth in US natural gas demand: Maguire

The power sector is the only major consumer of natural gas that has shown consistent demand growth in recent years, and has become the driving force behind natural gas demand in the United States as consumption from other sectors declines.

Natural gas use by power generators has expanded by around 3.5% a year over the past three years, and is by far the largest single source of gas use in the U.S., data from LSEG shows.

However by volume, growth in natural gas use by the power sector was outweighed by declines in others.

Average gas consumption by power firms grew by 70 billion cubic feet per day in 2023, while average combined consumption by industry, households and commercial users fell by 114 billion cf/day.

Power firms accounted for around 44.4% of total domestic gas use in 2023, compared to around 29% by industry, 15.5% by households and 11% by commercial users.

Industrial gas demand has declined by around 0.3% a year over the past three years, while residential and commercial gas demand has shrunk by around 0.5% and 0.7% annually respectively, according to LSEG's gas demand models.

The growing concentration of gas use within the power sector poses a potential risk to the U.S. gas production sector, as further rapid decarbonization of power systems could trigger a swift decline in gas demand for power while other major consumption sources are already in decline.

ELECTRIC PUSH

A broad push to electrify certain heating and power systems across homes and businesses has accounted for much of the cuts to gas use outside power generation.

Electricity-powered heat pumps and boilers have replaced gas-fired furnaces in scores of homes and businesses in recent years, although the pace of heat pump sales has slowed due to high electricity prices and interest rates.

A record 4.3 million heat pumps were sold in the United States in 2022, which was the first year that heat pump sales surpassed sales of gas-powered furnaces in the country, according to the Air-Conditioning, Heating, and Refrigeration Institute (AHRI).

Heat pump sales slowed to 3.6 million in 2023, and through May of 2024 totalled 1.564 million units compared to 1.643 million units during the same months of 2023, AHRI data shows.

Despite the slowing sales pace, the cumulative impact of the installed pumps on gas demand has expanded, as each unit has displaced some quantity of direct gas consumption.

POWER SWITCH

Estimates on the exact volumes of natural gas displacement by heat pumps are scant, as most assessments made by industry tend to be in terms of cost savings rather than in terms of the volume of fossil fuel consumption that is cut.

Further complicating the gas-impact calculus is the fact that many heat pump installations often substitute one type of energy consumption for another - from the direct burning of gas in on-site boilers to electricity supplied by power firms.

And as that additional quantity of electricity must in turn be generated mainly by power firms, the net effect on overall gas use in the United States remains hard to discern.

That said, high-level demand data reveal clear trends.

Total U.S. natural gas consumption during the first half of 2024 was up 2.3% from the same months in 2023.

Gas demand from power producers was up 5.2% from the first half of last year, while demand from all other major gas users was up just 0.5%, LSEG data shows.

Among non-power uses, gas demand was 3.1% higher among industrial users during the first half of 2024 from the same period last year, but down 2.5% among residences and 1.2% lower among commercial users.

That wide divergence in usage trends suggests that gas consumption may be close to peaking among non-power users, while continuing to expand in the power generation sector.

GAS GROWTH

A steady increase over the past five years in the proportion of electricity generated from natural gas further

illustrates the importance of the power sector to the natural gas industry.
Natural gas generated 42.41% of utility-scale electricity production in 2023, according to energy think tank Ember. That share compares to 35% in 2018 and 24% in 2010, and reveals how power firms have beefed up their reliance on natural gas for electricity generation while steadily reducing generation from coal.
Coal's share of U.S. electricity generation was 16% in 2023, down from 27% in 2018 and 45% in 2010, Ember data shows.
Electricity generation from solar and wind farms was 15.6% in 2023, compared to 9% in 2018 and 2.3% in 2010.
A further steady expansion in renewable electricity generation is expected over the coming years, which may help power firms make further cuts to output from coal-fired plants as part of emissions reduction goals.
But power producers look set to remain heavy users of natural gas for electricity generation, as gas plants can be easily throttled up and down to match the ebbs and flows of power demand needs and to plug any generation shortfalls during periods of low output from renewable sources.

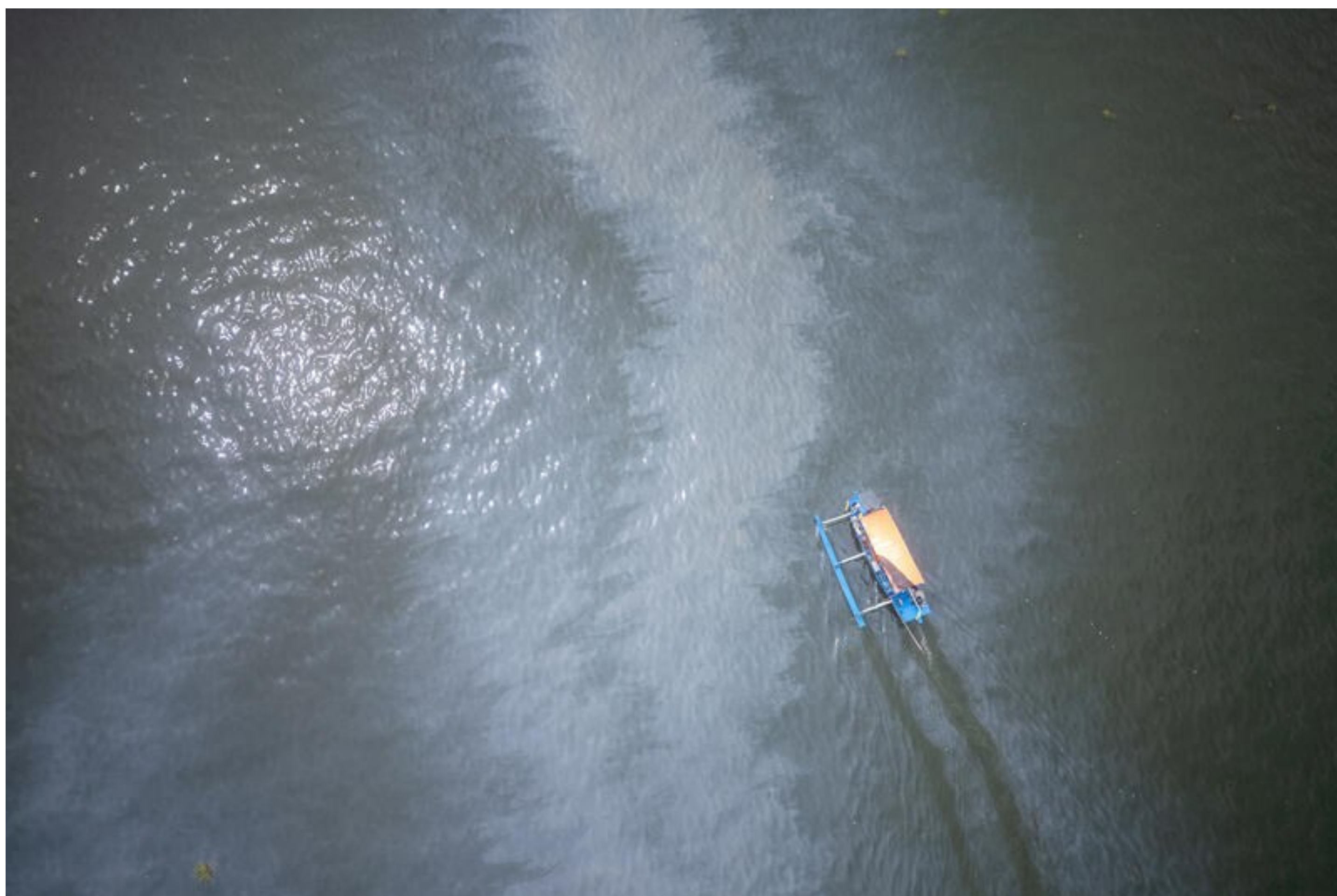
DEMAND TRENDS
Total U.S. electricity demand looks set to expand as more energy end-uses become electrified and as overall power consumption climbs from data centres and due to artificial intelligence computations.
Over the near to medium term, that higher power demand outlook bodes well for the natural gas production sector, even if direct gas use in households and commercial buildings continues to contract.
But over the longer run, the continuing concentration of gas demand among the power sector poses a potential risk for the gas industry.
Several utility systems have plans to phase out gas-fired generation and replace that power with a combination of renewable energy generation alongside battery storage systems that can store surplus renewable power for later use.
Over the coming years, battery systems look set to remain far too small to pose any significant risk to gas demand.
But if utility-scale battery systems continue their recent rapid growth while dropping in cost, goals for wholesale renewables + battery systems could become a reality and start to squeeze out gas from power systems in a decade or so.
And if that occurs while other sources of gas demand also shrink, a major gas supply surplus could materialize.
The opinions expressed here are those of the author, a columnist for Reuters.

Top News - Dry Freight

LME approves Saudi port as warehouse delivery point
The London Metal Exchange (LME) has approved Red Sea port city Jeddah in Saudi Arabia as a warehouse delivery point for copper and zinc, it said on Monday.
The exchange said the listing will become active three months after the first warehouse company has been approved in the new location.
Warehouses registered with the LME, the world's largest and oldest metals trading venue, are usually located in areas of net metals consumption or top transit hubs such as Rotterdam.
Saudi Arabia is planning an ambitious industrial development and logistics programme, part of its wider Vision 2030 reform plan, which aims to make the kingdom a major global player in the energy, mining, logistics and industry sectors.
In March, the LME said it planned to add Jeddah as a new delivery point subject to consultation about a technical change to the LME warehouse framework.
In a separate notice on Monday, the LME said that it had amended a clause in the LME's policy on the approval of locations as delivery points related to warehouse insolvency following a consultation.
The LME is owned by Hong Kong Exchanges and Clearing

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 31, they said.
Price offers in MFIG’s tender are being sought for one consignment of yellow corn of between 40,000 to 65,000 tons at a premium over the Chicago December 2024 corn contract.
Shipment is sought between Sept. 18 and Oct. 7 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 between Oct. 3 and Oct. 22.

Picture of the Day



A drone view shows an oil slick in the water off the coast of Manila Bay, in Pamarawan, Malolos, Bulacan province, Philippines, July 29. REUTERS/Adrian Portugal

(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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