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Top News - Oil

Ukraine halted oil flows to Europe over payment issue, Russia's Transneft says

Ukraine has suspended Russian oil pipeline flows to parts of central Europe since early this month because Western sanctions prevented it from accepting transit fees from Moscow, Russian pipeline monopoly Transneft said on Tuesday.

International benchmark Brent crude jumped by $2 per barrel to trade near $98 as the news added to energy supply concerns, but turned negative later in the day.

Europe is heavily reliant on Russian crude, diesel, natural gas and coal. Energy prices have rallied this year on short supply as Europe scrambles to replace Russian energy with alternative sources.

Flows along the southern route of the Druzhba pipeline have been affected while the northern route serving Poland and Germany remains uninterrupted.

The suspension of pipeline flows on Tuesday will hit countries such as Slovakia, Hungary and the Czech Republic, which all rely heavily on Russian crude and have limited ability to import alternative supply by sea.

The fact that refiners have to import seaborne oil on such short notice will make the job to secure alternative supply even more difficult in an already tight oil market, traders said.

Hungarian energy firm MOL and Slovak pipeline operator Transpetrol confirmed flows have been halted for a few days over the payment of transit fees.

MOL said it had reserves for several weeks and was working on a solution. MOL's oil refiner Slovnaft said that it initiated discussions with Ukraine and Russian partners on possible payment of the transit fee by Slovnaft or MOL.

Hungary is one of the most reliant countries on Russia oil and its government has been lobbying hard to get exemption from wider EU sanctions on Moscow.

Hungary can import oil via Adria pipeline that connects the Omisalj oil terminal in Croatia to its Duna refinery in Hungary, but the capacity of the route is limited and shipments are much more expensive than via Druzhba.

Slovakia's options for alternative oil imports are even more limited as it has to import oil via Hungary.

Poland's PKN Orlen, which controls refiner Unipetrol in the Czech Republic, may secure alternative supplies from Trieste in Italy via the Transalpine (TAL) pipeline, though the route is operating close to its limited capacity and might not be enough to fulfil feedstock needs, traders said.

The Czech Republic's pipeline company MERO has operative oil stocks that can last at least until the second half of August, and the government is not currently planning to tap its near 90-day strategic reserve, Industry Minister Jozef Sikela said on Tuesday.

MERO said it expected Russian oil supplies through the Druzhba pipeline to the Czech Republic to restart within several days.

Russia's Transneft said it made payments for August oil transit to Ukrainian pipeline operator UkrTransNafta on July 22, but the money was returned on July 28 as the payment did not go through.

It said the shipments were halted from Aug. 4.

Transneft said in a statement that Gazprombank, which handled the payment, told it the money was returned because of European Union restrictions.

SANCTION RULES

Under the new sanctions, European banks have to receive approval from a relevant government authority instead of deciding by themselves whether to allow a transaction, Transneft said.

It said European regulators had yet to decide on algorithms for all the banks, which complicates the dealings.

Transneft is considering alternative payment systems, but had sent a request for the transaction to be allowed, the pipeline monopoly said.

MOL and Unipetrol are the main buyers of oil via the Druzhba route, also known as the Friendship pipeline, while Russia's Lukoil, Rosneft and Tatneft are the main suppliers of oil.

UkrTransNafta did not respond to a request for comment.

Since March, Hungary, Slovakia and the Czech Republic have relied extensively on supplies of Russian Urals crude via the Druzhba pipeline and reduced purchases of maritime crude.

A decline in European demand for Russian oil since Russia invaded Ukraine at the end of February has pushed the value of seaborne Urals, used to price Druzhba deliveries, to the widest discount in history against the dated Brent benchmark.

Moscow refers to the invasion as a "special military operation".

Russia normally supplies about 250,000 barrels per day (bpd)via the southern leg of the Druzhba pipeline. If the supplies remain suspended Russian oil exporters will have to divert volumes to sea ports, traders said.

Russian oil loadings from its western ports of Primorsk, Ust-Luga and Novorossiisk were set at 8.74 million tonnes in August. Russia, the world's second biggest oil exporter and leading gas exporter, has already reduced gas pipeline flows to many EU members, citing problems with turbine maintenance on the Nord Stream 1 pipeline as well as sanctions against some buyers Moscow describes as "unfriendly".

U.S. oil refiners, pipeline companies expect strong demand for rest of 2022

U.S. oil refiners and pipeline operators expect energy consumption to be strong for the second half of 2022, even though analysts and industry watchers have worried that demand could falter if the global economy enters a recession or high fuel prices deter travelers.

The company outlooks suggest a stronger view than recent data showing weakness in U.S. fuel demand, particularly in gasoline, where consumption recently hit its lowest level since February even though this is the middle of the peak summer driving season.

U.S. gasoline product supplied over the past four weeks recently fell below 2020's level for the same time of year, when the United States was in the depths of the pandemic.

Energy companies including Energy Transfer LP and PBF Energy Inc say energy demand will be strong in the second half of 2022, according to a Reuters review of company earnings calls.

"Management sees what's going on on the ground so any time they're calling out positivity when demand data has been showing otherwise, we find that interesting," said Kian Hidari, an analyst at Tudor, Pickering, Holt and Co. "It's still a strong environment for gasoline compared to historical levels."

U.S. refiners are also benefiting from high exports of transportation fuels to Latin America, and plants are expected to run at high utilization rates to restock inventories that were drawn down when fuel supply cratered earlier this year.

Refiner exports of finished petroleum products were largely in line with five-year seasonal averages at 3.02 million barrels per day (bpd) in May, the latest data available, according to the U.S. Energy Information Administration. That was nearly 65% higher than the pandemic low reached in May 2020.

U.S. oil output has recovered to 12.1 million bpd, helping boost pipeline and terminal volumes for many midstream companies for the second quarter from a year ago.

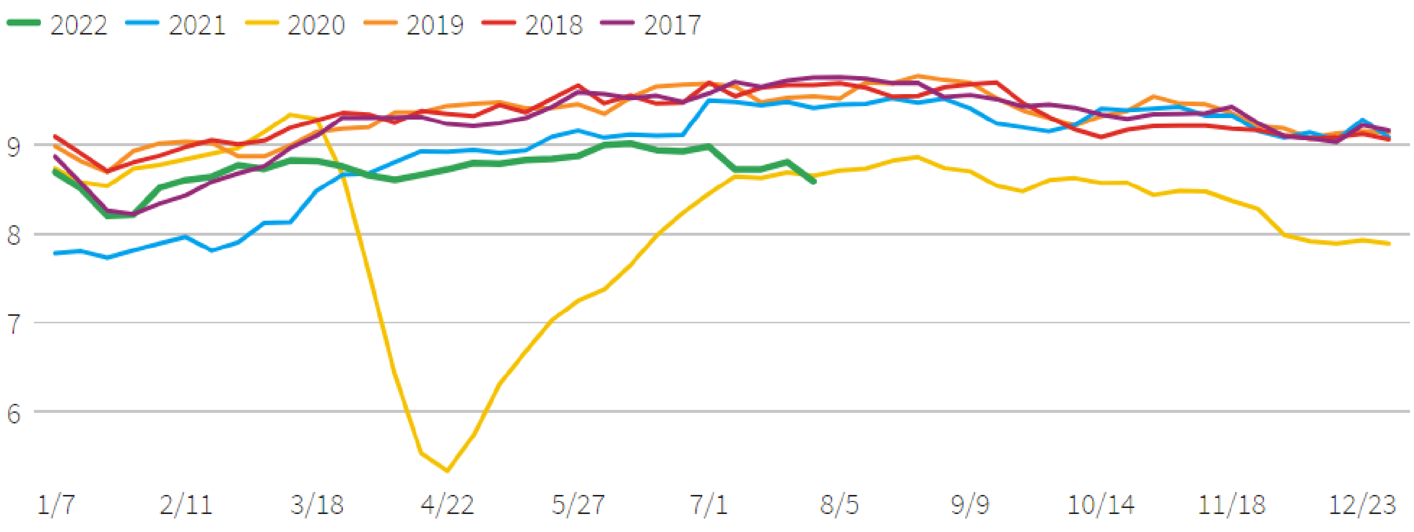
Energy Transfer reported a stronger-than-expected second quarter performance and boosted its guidance for the rest of the year, said Co-Chief Executive Thomas Long.

Of the 16 midstream companies that reported earnings last week, more than half revised guidance higher, said

Chart of the Day

U.S. gasoline demand ebbs in summer on higher prices

U.S. gasoline consumption is trending below recent years, raising concerns about the health of the economy. Refiners and pipeline companies expect consumption to improve in the second half of 2022.



Note: million bbls per day, 4 week avg

Source: Dallas Fed, EIA

REFINITIV™ DATA IS JUST THE BEGINNING

James Mick, Portfolio Manager at Tortoise Capital Advisors.
The four-week average of implied demand for gasoline fell to just under 8.6 million barrels per day (bpd) in the week to July 29, lowest since February, according to EIA data, though the weekly figures can be volatile.
"We are constructive on the outlook for transportation fuels, supported by low product inventories and healthy global demand," HF Sinclair Corp Chief Executive Michael Jennings said on a call with analysts on Monday.
Inflation is soaring this year, but with U.S. job growth unexpectedly accelerating in July, economists are less worried about an impending recession.
The only U.S. refiner to note some demand tapering in its earnings call was CVR Energy Inc, specifically in the mid-continent, which includes states such as Kansas and Oklahoma, Hidari said. The company said it has seen some demand destruction as consumers shy away from driving because of retail gasoline prices that have reached over $4 per gallon.

Top News - Agriculture

Australia's Graincorp hikes profit view again on soaring demand, favourable weather
Australia's Graincorp raised its annual profit forecast for the second time, as the agribusiness firm capitalises on strong demand for grains and vegetable oils amid a supply crunch from the war in Ukraine, pushing its shares up more than 10%.
The profit upgrade on Wednesday was also encouraged by expectations of above-average East Coast Australian (ECA) crop in year 2022/23, combined with a favourable three-month rainfall outlook.
Global wheat prices reached record levels in early 2022 as major exporter Ukraine's supplies were essentially cut off due to Russia's invasion, triggering a five-fold jump in Graincorp's first-half profit and allowing it to pay a special dividend.
Australia, the world's sixth-largest wheat exporter, has been the top alternative for buyers seeking to replace cargoes from Russia and Ukraine, and is set to ship a record volume this year.
The company said it now expects fiscal 2022 underlying net profit after tax between A$365 million ($254.08 million) to A$400 million, up from its prior forecast of A$310 million to A$370 million.
Its shares soared up to 10.3% to A$8.43, before paring some gains to trade 6.3% higher by 0122 GMT.
"This positive outlook is driving an increase in fourth-quarter activity and supporting export volumes, forward contracted grain sales and supply chain margins," Chief Executive Officer Robert Spurway said.
The agribusiness and processing businesses were set to deliver record financial results, Graincorp said, adding, its supply chains were operating at close to full capacity to export grains.
"A lot of the investors have jumped on the forward guidance positivity... But the general theme is that the company believes that there is strong ongoing demand for their products despite the macro backdrop," said Azeem Sheriff, market analyst at CMC Markets.
The company said it was also investing in additional bunker storage and handling equipment to maximise receivable capacity at key sites across its network.

Biden rule would give organic chickens access to outdoors
President Joe Biden's administration on Tuesday proposed a U.S. rule requiring farms to give egg-laying chickens access to the outdoors in order to earn the label "organic," closing loopholes but potentially giving companies up to 15 years to comply.
The long-awaited proposal, published by the U.S. Department of Agriculture, would eliminate loopholes that have let some of the biggest egg producers claim the federally administered "organic" label by installing open-air porches on henhouses in lieu of providing access to pasture.
"Today marks the first significant movement on organic animal welfare in years," said Tom Chapman, CEO of the Organic Trade Association.
Giving chickens access to pasture rather than confining them to henhouses is considered more humane treatment.
The USDA said the rule would better align the organic program with consumer expectations.
"This is about animal husbandry practices, animal welfare and leveling the playing field," USDA Under Secretary for Marketing and Regulatory Programs Jenny Moffitt said in an interview. "The goal of this is to have unambiguous standards."
The rule now faces a 60-day public comment period before it can be implemented.
Former President Barack Obama's administration in 2016 pursued a similar rule that went into effect in 2017. That rule was opposed by the largest U.S. organic egg producer, Michigan-based Herbruck's Poultry Ranch, and key farm-state Senator Debbie Stabenow of Michigan, and was withdrawn under Obama's successor Donald Trump later in 2017.
The egg industry opposed the Obama-era rule, arguing it would raise the cost of eggs. Larry Sadler, vice president of animal welfare for egg industry trade group United Egg Producers, said the group did not yet have a position on the Biden administration's proposal.
Stabenow, a Democrat who chairs the Senate Agriculture Committee, called the new rule important but said she

would "continue to encourage the USDA to allow the necessary flexibility in production."
The Obama-era rule had allowed for a five-year implementation period. The USDA now is seeking comment on whether companies should be given 15 years.
"A 15-year timeline is kicking the can too far down the road," said Erik Drake, CEO of New Hampshire-based organic egg company Pete and Gerry's that already allows its hens access to pasture.

Top News - Metals

EU agrees to January deadline to comply with WTO ruling on steel import curbs
The European Union and Turkey have agreed the bloc has until Jan. 16 next year to comply with a World Trade Organization (WTO) ruling regarding its "safeguard" measures designed to curb steel imports, the WTO said on Tuesday.
The EU introduced "safeguard" measures in July 2018 in the form of tariff-rate quotas. They allow various grades of steel to come into the bloc free of tariffs up to certain quotas, but any further imports face 25% tariffs.
Turkey, which is a major steel exporter to the EU, complained that the EU's measures breached the bloc's commitments to the WTO.
Under WTO rules, members are allowed to impose safeguards under specific conditions, including that imports have risen to the point where they are damaging domestic industry and that this should be the result of "unforeseen developments".
A WTO panel in April accepted Turkey's view that the European Commission had failed to show that steel imports rose because of unforeseen developments and that the EU industry was threatened with serious injury.

COLUMN-Glencore's smelter warning galvanises the zinc price: Andy Home
The London Metal Exchange (LME) zinc price jumped to a six-week high last week after Glencore warned of the continuing margin squeeze on its European smelters.
The commodities powerhouse idled part of its Portovesme smelter in Italy at the end of 2021 due to high power prices.
Europe's power crunch has got much worse in the intervening months after Russia launched what it calls its

MARKET MONITOR as of 06:24 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$89.65 / bbl	-0.94%	19.20%
NYMEX RBOB Gasoline	$2.95 / gallon	-0.28%	32.47%
ICE Gas Oil	$990.50 / tonne	-0.73%	48.50%
NYMEX Natural Gas	$7.83 / mmBtu	-0.06%	109.87%
Spot Gold	$1,787.88 / ounce	-0.35%	-2.22%
TRPC coal API 2 / Dec, 22	$235 / tonne	2.31%	91.06%
Carbon ECX EUA / Dec, 22	€85.85 / tonne	-0.09%	6.45%
Dutch gas day-ahead (Pre. close)	€190.00 / Mwh	5.04%	185.71%
CBOT Corn	$6.14 / bushel	-0.24%	3.50%
CBOT Wheat	$7.82 / bushel	-0.41%	1.39%
Malaysia Palm Oil (3M)	RM4,086 / tonne	-0.80%	-13.01%
Index (Total Return)	**Close 09 Aug**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	304.29	0.98%	23.18%
Rogers International	30.81	0.60%	32.20%
U.S. Stocks - Dow	32,774.41	-0.18%	-9.81%
U.S. Dollar Index	106.30	-0.07%	10.77%
U.S. Bond Index (DJ)	411.57	1.90%	-12.50%

"special military operation" in Ukraine at the end of February.
What looked at the time like a seasonal power price spike has morphed into structurally higher pricing.
It's a "very challenging" time to be in the zinc smelting business, Glencore said.
This isn't really news, but the reminder from one of the market's biggest operators was enough for the LME three-month price to spike higher to $3,554.50 per tonne, up 26% from its July low of $2,824.50.
Last trading around $3,480, zinc's fortunes will now depend on whether high power pricing hits production or demand hardest.

SMELTER SQUEEZE
Refined zinc production at Glencore's European operations fell by 47,500 tonnes year-on-year to 350,900 tonnes in the first six months of 2022.
That mainly reflected the idling of the main production line at Portovesme, although the Italian plant's recycling activities continue for now.
Glencore's other two European zinc assets - the 165,000-tonne-per year Nordenham smelter in Germany and the 510,000-tonne San Juan plant in Spain - are also still operating, but both are thought to be modulating run-rates around peak energy pricing periods.
A business that in the past generated net earnings (before tax, depreciation and amortisation) of around $300 million "is barely covering itself at the moment", Glencore's chief financial officer Steven Kalmin told analysts on the first-half results conference call.
The company's European custom metallurgical operations generated just $19 million in net earnings in the period, down from $69 million in the first half of 2021.
The problem is that high power prices don't look like going away any time soon. Indeed, there is the prospect of more trouble to come as Europe heads into the winter months.
The current energy supply and price environment poses a "significant" supply threat given Europe accounts for around 30% of supply outside of China, Glencore said.

METAL SQUEEZE
Europe's power woes and a string of smelter problems elsewhere caused global output to slide by almost 2% in the first five months of 2022, according to the latest monthly snapshot from the International Lead and Zinc Study Group (ILZSG).
Physical premiums remain stubbornly high during what is normally a seasonal low point for demand over the northern hemisphere summer holidays.
North European premiums are currently around $450-480 per tonne over LME cash and Italian buyers are paying a bit more thanks to the Portovesme curtailment, according to Fastmarkets.
The U.S. premium is higher still at around $900 based on the mid-point of Fastmarkets assessment.
It's not just the physical supply chain that remains tight. LME time-spreads have been volatile since April and the cash premium over three-month metal has just expanded again to $107.25 per tonne as of Monday's close.
That is attracting metal, with 7,715 tonnes warranted at Singapore last week and a tranche of zinc earmarked for physical load-out re-warranted at the Taiwanese port of Kaohsiung.
But headline stocks of 73,275 tonnes remain historically very low and 32,325 tonnes of that are still scheduled for physical load-out.
Tellingly, there has been no stocks rebuild in either Europe, where LME-registered inventory stands at just 25 tonnes, or in the United States, where all the remaining stocks have been cancelled and are being steadily drawn down.

DEMAND HIT
As energy prices, particularly those in Europe, show no sign of easing as long as the war in Ukraine continues, zinc bulls are on the prowl again.
"The options market is seeing more interest in bullish structures", according to a Tuesday market note from LME broker Marex, citing particular interest in September calls "with $4k handles".
Citi warns of a further potential price spike over the northern hemisphere winter if European gas supplies are insufficient to offset disruption to Russian supply. ("Metals Weekly", June 24, 2022).
However, the flip side of higher power prices is the hit on manufacturing and construction activity, both big users of zinc in the form of galvanised steel.
Even with global refined zinc production falling in January-May, the market generated a supply surplus of 29,000 tonnes, according to ILZSG.
That's because the group thinks global usage also contracted by 1.7% in the period as Chinese demand succumbed to rolling lockdowns in the first part of the year.
Some sort of Chinese recovery is expected but it will coincide with lower demand elsewhere, particularly in Europe as the power crisis bites not just smelters but downstream manufacturers.
The outlook for metals pricing is "complex", Glencore said, balancing supply risks and continuing supply-chain disruption against "likely weakening end-use markets ex-China".
Zinc is a prime example of this complexity, the price ultimately dependent on whether high power prices hurt European demand more than they hurt the region's smelters.

Top News - Carbon & Power

As German gas rationing looms, industry begs exemptions

Germany, Aug 9 (Reuters) - Germany's network regulator, which would be in charge of gas rationing in the event of a supply emergency, has received scores of exemption requests from across industry, reflecting fears of potential production cuts and subsequent losses.

Germany is at phase two of a three-stage emergency plan following a reduction in gas flows from Russia, its main supplier, a major problem for industry, which accounts for a quarter of the country's gas demand.

Chancellor Olaf Scholz said on Tuesday gas prices, which have soared due to uncertainty over Russian supplies, would not come down again quickly as governments around the world see the fuel as a bridge on their decarbonisation path.

While industry and regulators are trying to work out a plan for what happens at phase three - when rationing kicks in - individual sectors have started to ask for leniency and some companies have begun changing work practices to reduce energy use.

"An application procedure is not foreseen. The Federal Network Agency continues to receive numerous letters from virtually all sectors," a spokesperson for Germany's network regulator (BNetzA) said in e-mailed statements.

"Blanket exemptions are not provided for in the current law," the spokesperson said, adding the regulator maintained "a constant dialogue" with industry to prepare for a gas supply emergency.

Big gas consuming sectors that have raised their voices publicly are the glass, steel, pharmaceutical and chemical industries, where gas is used to make everything from plastics and fertiliser to fibres and solvents.

Around 120 of BNetzA's staff are working on crisis prevention and management.

Russia's Gazprom is supplying 20% of the usual capacity of the Nord Stream 1 pipeline, which normally carries around a third of Russian gas exports to Europe, in an energy stand-off rooted in Moscow's invasion of Ukraine.

The regulator has started to collect data from Germany's largest industrial players, an effort it said had drawn a "very high" level of participation of 2,750 companies.

BNetzA has said it is trying to put together a shutdown list for industry based on six criteria, which include a company's size, economic damage as well as costs and how long it would take to restart specific facilities.

"Everyone is now clear about how serious the situation is," said Alexander Theusner of law firm Roedl & Partner, who has been advising clients to draw up the letters.

When it comes to the crunch, private households will have some but not all-encompassing priority over industry, while hospitals, care facilities and other public sector institutions with special needs would be last to be disrupted.

Centrica signs $8.5 bln LNG deal with U.S. supplier

Centrica Plc has signed a 7 billion pound ($8.47 billion) agreement with U.S.-based Delfin Midstream Inc to buy liquefied natural gas (LNG) from 2026, Britain's largest energy supplier said on Tuesday.

Countries across Europe are seeking to diversify their energy supplies following Russia's invasion of Ukraine and a drop in gas flows from Russia to Europe.

Centrica, which owns British Gas, said the 15-year deal would be worth around 7 billion pounds and involve buying 1 million tonnes of LNG per annum on a free on board (FOB) from the Delfin Deepwater Port off the coast of Louisiana from 2026.

"Natural gas has now been recognised as an essential transition fuel on the path to net zero just at the point geopolitical uncertainty is impacting the global gas market," said Centrica CEO Chris O'Shea in a statement.

Britain is home to three of the largest LNG terminals in Europe -- two terminals at Milford Haven and another at the Isle of Grain -- where the super chilled fuel is converted back into gas.

"Today's deal between Centrica and Delfin is positive news for the UK, helping to ensure our diversity of supply from reliable sources," Kwasi Kwarteng, Britain's Business and Energy Minister said in Centrica's statement.

The United States became the world's top exporter of LNG in the first half of 2022 and is on course to exceed a pledge to provide Europe with more supplies of gas and help to break its dependence on Russian fuels.

Delfin said in the statement the deal was another milestone towards taking a final investment decision by the end of the year on the United States' first floating LNG export terminal.

Centrica also signed an agreement with Norway's Equinor in June for an additional 1 bcm of gas supplies, enough to heat 4.5 million homes over the next three winters.

Top News - Dry Freight

Two more grain ships leave Ukraine, bringing total to 12 under new deal

Two more grain-carrying ships left Ukraine's Chornomorsk port on Tuesday, Turkey's defence ministry said, as part of a deal to unblock Ukrainian sea exports, bringing the total to leave the country under a safe passage deal to 12.

The Ocean Lion left for South Korea, carrying 64,720 tonnes of corn, it said, while the Rahmi Yagci was carrying 5,300 tonnes of sunflower meal to Istanbul.

The United Nations and Turkey brokered the agreement last month after warnings that the halt in grain shipments caused by the conflict could lead to severe food shortages and even outbreaks of famine in parts of the world.

Four ships that left Ukraine on Sunday are anchored near Istanbul and will be inspected on Tuesday, the defence ministry statement said.

Before Russia invaded Ukraine on Feb. 24 in what it calls a "special operation" to demilitarise its neighbour, the two countries together accounted for nearly a third of global wheat exports.

The resumption of grain exports is being overseen by a Joint Coordination Centre (JCC) in Istanbul where Russian, Ukrainian, Turkish and U.N. personnel are working.

Ukraine hopes to export 20 million tonnes of grain in silos and 40 million from its new harvest, the country's economic adviser Oleh Ustenko said in July. The government hopes to earn $10 billion for its shattered economy from those volumes but Ustenko said it could take 20 to 24 months to export them if ports are not functioning properly.

EU soybean imports by Aug. 5 at 1.35 mln T, rapeseed 628,542 T

European Union soybean imports in the 2022/23 season that started on July 1 had reached 1.35 million tonnes by Aug. 5, data published by the European Commission showed on Tuesday.

That compared with 1.54 million tonnes by the same week in the previous 2021/22 season, the data showed. However, this season's grain and oilseed data should have covered the period up to Aug. 7, and may also be incomplete for the period up to Aug. 5, the Commission said.

EU rapeseed imports had reached 628,542 tonnes, compared with 418,125 tonnes a year earlier.

Soymeal imports so far in 2022/23 totalled 1.42 million tonnes against 1.43 million tonnes the prior season, while palm oil imports stood at 264,895 tonnes versus 566,974 tonnes in 2021/22.

EU sunflower oil imports, most of which usually come from Ukraine, were at 155,601 tonnes, against 147,491 tonnes a year earlier, the data showed.

Picture of the Day

A file photo of a farmer sitting in a tractor loaded with sugarcane waiting to offload the crop outside a sugar factory in Baghpat district in the northern state of Uttar Pradesh, India. REUTERS/Danish Siddiqui

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(Inside Commodities is compiled by Jesse Vinay in Bengaluru)

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