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

Top News - Oil

US oil, gas M&A activity jumped 57% last year amid industry consolidation

Dealmaking activity in the oil and gas industry increased 57% last year as energy companies boosted development spending, driven by higher cash flows from profits in prior years, according to a report released.

Top energy companies spent $49.2 billion on mergers and acquisitions in 2023, up from $31.4 billion in 2022, according to a report from Ernst & Young.

The increase was mainly driven by mega deals among integrated oil and gas companies. M&A activity is expected to continue this year and into 2025, driven by more mega deals, EY said.

Money spent on tapping oil and gas also increased last year, with exploration and development expenditures growing 28% to $93.1 billion.

The jump in spending on dealmaking and expanding reserves marks a shift in strategy following a years-long focus on shareholder returns over growth, which many firms had employed in a bid to lure back investors who had fled the sector.

Last year, oil and gas companies halved spending on dividends and share repurchases payments to $28.9 billion from a record $57.7 billion in 2022.

The sector-wide consolidation spurred M&A activity, boosting companies' overall expenditures to $142.3 billion, 36% higher than in 2022.

"We started to see in 2023 a focus to consolidate the positions that operators had," Bruce On, a partner at EY's strategy and energy transactions group, said in an interview, noting a shift in strategy to invest in core operations.

Companies flush with cash were focused on driving efficiency through scale and leveraging existing operations, he said.

Their profits fell 55% in 2023 to $83.9 billion, primarily due to lower West Texas Intermediate (WTI) crude oil spot prices, the report said.

Chevron was the top buyer of properties in 2023 with total property acquisition costs of $10.6 billion, largely due to its $6.3 billion deal to buy Denver-based oil exploration and production company PDC Energy, the report said.

Exxon Mobil completed the $60 billion acquisition of Pioneer Natural Resources in May this year.

In October, Chevron announced an agreement to buy oil producer Hess for $53 billion.

The deal, however, is delayed until at least mid-2025 due to a legal dispute.

COLUMN-Oil bears turn cautious as financial market strains ease: Kemp

Investors trimmed their bearish short positions in petroleum after other financial markets steadied following a sudden plunge earlier this month and crude prices found support above $75 per barrel.

Hedge funds and other money managers purchased the equivalent of 74 million barrels in the six most important petroleum futures and options contracts over the seven days ending on Aug. 13.

Most of the purchases, both overall and for individual contracts, came from buying back previous bearish short positions (-55 million barrels) rather than creating fresh bullish long ones (+19 million).

Fund managers were purchasers of Brent (+44 million barrels), NYMEX and ICE WTI (+17 million), U.S. gasoline (+6 million), U.S. diesel (+4 million) and European gas oil (+2 million).

The wave of short-covering came after investors cut their combined position to the lowest for over a decade the week before.

It also came after front-month Brent crude futures prices bounced from an eight-month low of $75 per barrel on Aug. 5.

With prices and positions so low, bearish trades had become crowded and the probability of at least a short-term bounce had become high.

Once other markets stabilised, some fund managers decided to realise profits and close out bearish positions.

The bounce in prices was therefore both the cause and the consequence of short-covering.

Even after the short-covering, however, the combined position was just 226 million barrels, in only the 3rd percentile for all weeks since 2013.

Front-month Brent prices rose to around $81 per barrel, but that was no more than the long-term inflation-adjusted average. There was still considerable potential for short-covering and the rebuilding of bullish positions to help propel prices higher.

But for the time being further position-building and price rises have been capped by lingering doubts about the outlook for the major economies and petroleum consumption.

U.S. NATURAL GAS

For the third week in a row, investors made few changes to their broadly neutral position in U.S. natural gas over the seven days ending on Aug. 13.

Hedge funds and other money managers purchased the equivalent of 20 billion cubic feet (bcf) in futures and options tied to the price of gas at Henry Hub in Louisiana.

Funds held a net long position of 352 bcf (42nd percentile for all weeks since 2010) essentially unchanged from 341 bcf (41st percentile) three weeks earlier and down from a recent high of 1,123 bcf (59th percentile) on June 11.

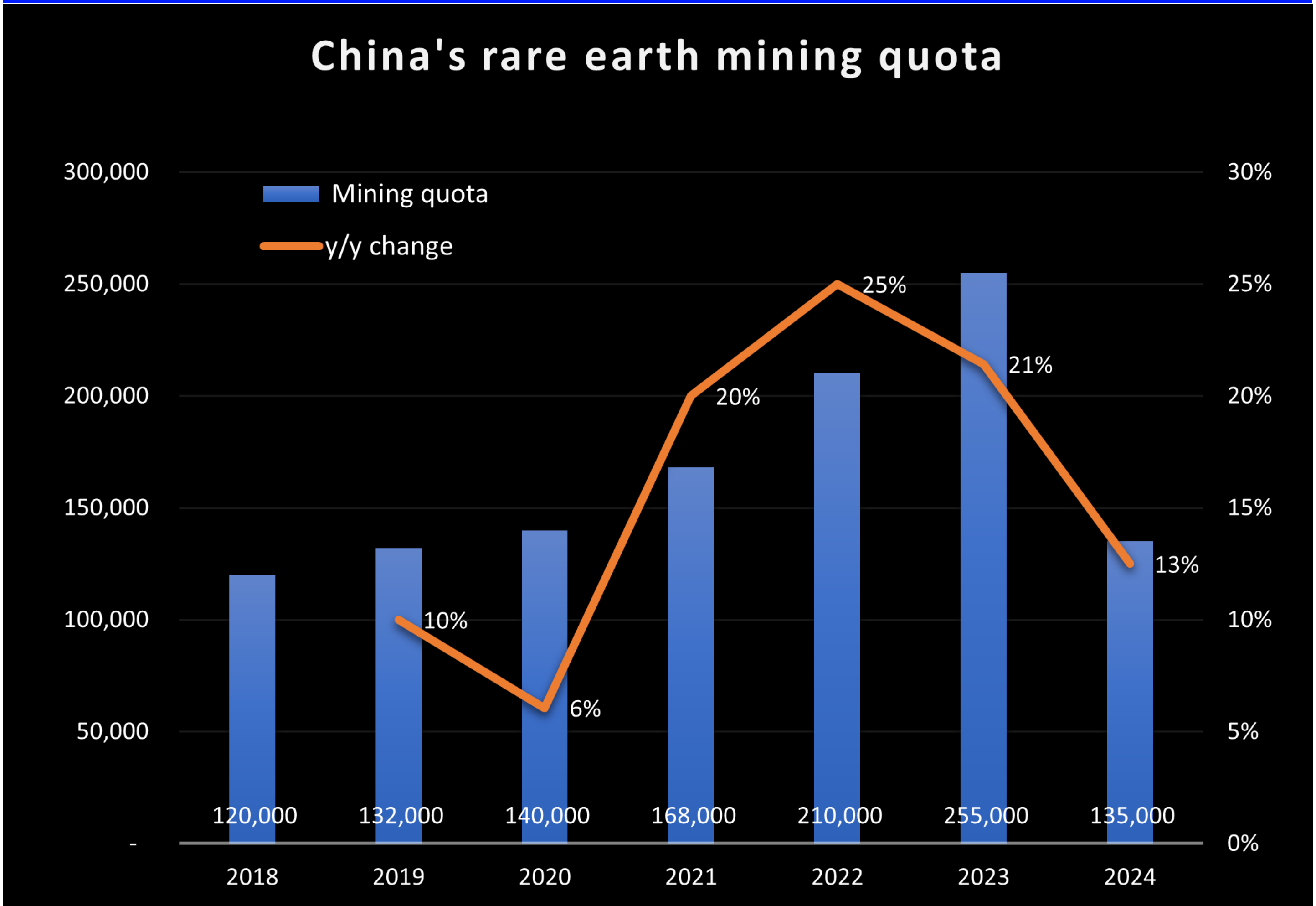
But there are indications the enormous surplus of gas inherited from the very mild winter of 2023/24 is being eroded by slower production growth and as summer air-conditioning demand and ultra-low gas prices boost gas-fired generation.

Working inventories dropped 6 bcf over the seven days ending Aug. 9, according to data from the U.S. Energy Information Administration.

Inventories have risen by a total of just 65 bcf over the last five weeks, the slowest seasonal increase in data going back to 2010, and compared with a ten-year average rise of 213 bcf.

As a result, stocks were 389 bcf (+13% or +1.20 standard deviations) above the prior ten-year seasonal average, down from a surplus of 664 (+40% or +1.24 standard deviations) in mid-March.

Chart of the Day



Source: China's Ministry of Industry and Information Technology and Ministry of Natural Resources
Note: 2024 data is only for the first batch of the year. China typically issues the quotas twice a year, with 2023 seeing a rare issuance of three batches of quotas.

With the air-conditioning season more than half over, it is virtually certain inventories will still be above average when the 2024/25 winter heating season starts on Nov. 1.

But the surplus is gradually eroding and is on course to be eliminated entirely before the end of winter 2024/25.

Top News - Agriculture

China July soy imports from US jump threefold, customs data shows

China's soybean imports from the U.S. jumped threefold in July from a year earlier, as the U.S. growing season picks up, but Brazilian supplies still took the bulk of the market share, data from the General Administration of Customs showed.

The world's biggest soybean buyer imported 475,392 metric tons of the oilseed from the United States last month, compared with 142,129 metric tons a year earlier, according to the data. Imports from larger producer Brazil eased 1.15% to 9.12 million tons.

The South American beans made up nearly all of 9.85 million tons of total soybeans imports into China in July.

For January-July, China's imports from Brazil totalled 43.55 million tons, a 12% increase from the same period last year. Total arrivals from the U.S. in the seven months of the year came to 12.63 million tons, down 25% on the prior year, the data showed.

Crushers in China stepped up buying in recent months after lower global prices helped cut import costs, leading to overflowing inventories a time when animal feed demand remains subdued.

China's tepid demand comes amid forecasts for a bumper U.S. soy crop and good growing weather in the U.S Midwest, which have pushed soy prices near four-year lows.

The U.S. Department of Agriculture raised its estimate for the 2024/25 soybean crop to a record 4.589 billion bushels from 4.469 previously.

POLL-Raw sugar prices to rebound but still post annual loss

Global raw sugar prices are expected to regain ground during the remainder of 2024 but still end with a small annual loss of less than 3%, a Reuters poll of 10 traders and analysts showed on Monday.

The sweetener is set to close the year at 20 cents per lb, up 10.9% from Friday's close but still 2.8% below levels at the end of last year, according to the poll's median forecast.

A drop in production in the key Centre-South region of Brazil in 2024/25 following a record cane crop in the prior season is expected to contribute to a recovery in prices.

The Centre-South region of Brazil is forecast to harvest a cane crop of 610.5 million metric tons, down from the prior season's record 654.4 million tons.

Brazilian mills are set to favour sugar in the 2024/25 season with 50.5% of cane used to produce the sweetener, up from 48.9% in 2023/24.

The balance is used to produce ethanol.

Sugar production in CS Brazil was seen at 40.9 million tons, down from 42.4 million in 2023/24.

"Brazilian export pace cannot continue at record levels for too much longer. Once the pace of Brazilian exports slows the outlook will improve," said analyst John Stansfield of DNEXT Intelligence SA.

India, the second largest producer and top consumer of sugar, was expected to produce 30 million metric tons of sugar in 2024/25, down from 32.05 million in 2023/24.

Participants were divided over whether they will be a global surplus or deficit in the 2024/25 season with a median forecast of a marginal surplus of just 780,000 metric tons compared with a surplus of 1.4 million tons in 2023/24.

White sugar prices were forecast to end the year at $545 per metric ton, up 5.5% from Friday's close but still end the year with an annual loss of 8.6%.

Top News - Metals

Not-so-rare earths: Ample supply weighs on prices of key minerals group

Weak demand for rare earths combined with ample supplies are weighing on prices of the group of 17 minerals used in technologies from lasers to EVs, with little near-term catalyst in sight, industry participants said.

Exports of rare earths from China, the dominant producer, climbed 7.5% year-on-year in the first seven months of 2024, but prices still fell during that period and are hovering near their lowest in more than three years.

"We have recently received a lot of offers, asking us whether we need cargoes, which makes me feel it's not easy for them to find buyers now," said a London-based buyer of rare earths, declining to be named as the person was not authorised to speak with the media.

The dysprosium oxide price has shed 32% so far this year and terbium oxide has fallen 26%, Argus Media data showed.

"Dysprosium and terbium are at particular risk of oversupply within China because local magnet makers have cut their consumption of these materials significantly in the past decade in order to lower production costs," said Ellie Saklatvala, an analyst at Argus Media.

Prices of neodymium oxide and praseodymium oxide have both shed around 15% in 2024, Shanghai Metals Market data showed.

Analysts expect China to trim the growth in its rare earths mining quota this year after last year's quota grew an annual 21.4% to 255,000 tons.

Prices rose in July on market expectations that Beijing would buy rare earths for state stockpiles, retreating partially when no such purchase took place, industry insiders said.

The National Food and Strategic Reserves Administration, China's state stockpiler, did not respond to a request for comment.

"It's hard to tell how ... demand will perform, as it seems that consumption areas, except new energy vehicles, are not very optimistic," said a China-based rare earth magnet producer. A rare earths processor in China's Jiangxi province said they expect the market to stabilise after October, blaming recent weakness on a wave of selling ahead of national security regulations unveiled in June on the mining, smelting and trade in rare earths that take effect on Oct. 1.

"Demand from the EV sector has been on the rise in recent years, but there is more supply, way too much," the person said.

Floundering prices have hurt profits and revenues of producers including China Northern Rare Earth, China Rare Earth Resources and Technology, MP Materials and Lynas Rare Earths.

Edvard Christoffersen, an analyst at consultancy Rystad Energy, said in an Aug. 14 webinar that many producers are operating at a loss and stockpiling supplies as they wait for a better time to sell.

"But we do expect that eventually demand will pick up for rare earths," he said, pointing to long-term demand growth in energy transition sectors such as EVs and wind turbines.

ANALYSIS-BHP's quick strike fix sets tone for labor talks amid copper rally

Mining giant BHP's quick fix to a recent six-day strike at its huge Escondida copper mine in Chile could set the tone for upcoming negotiations elsewhere, with workers emboldened by high copper prices to push for a larger share of the profits.

MARKET MONITOR as of 06:45 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$73.75 / bbl	-0.83%	2.93%
NYMEX RBOB Gasoline	$2.08 / gallon	-0.64%	-1.21%
ICE Gas Oil	$693.50 / tonne	-2.26%	-7.63%
NYMEX Natural Gas	$2.23 / mmBtu	-0.31%	-11.38%
Spot Gold	$2,503.96 / ounce	0.00%	21.40%
TRPC coal API 2 / Dec, 24	$131.75 / tonne	1.24%	35.82%
Carbon ECX EUA	€73.24 / tonne	0.14%	-8.87%
Dutch gas day-ahead (Pre. close)	€39.00 / Mwh	0.26%	22.45%
CBOT Corn	$3.99 / bushel	-0.25%	-17.51%
CBOT Wheat	$5.51 / bushel	-0.27%	-13.88%
Malaysia Palm Oil (3M)	RM3,731 / tonne	0.27%	0.27%
Index	**Close 19 Aug**	**Change**	**YTD**
Thomson Reuters/Jefferies CRB	326.73	0.39%	8.40%
Rogers International	26.74	0.06%	1.58%
U.S. Stocks - Dow	40,896.53	0.58%	8.51%
U.S. Dollar Index	101.92	0.04%	0.58%
U.S. Bond Index (DJ)	443.64	0.37%	3.00%

Members of Escondida's powerful Union No. 1 signed a sweetened deal on Sunday after walking off the job a week ago when contract talks collapsed, demanding better pay and benefits at the world's biggest copper mine.

With a preliminary deal in hand already on Friday, a union lawyer had termed the agreement its "greatest recent victory." It gave each worker a bonus and interest-free loan of about $34,000, compared with BHP's original offer of some $28,900.

The quick turnaround contrasts with a 2017 walkout that dragged on for a month and a half, severely hitting BHP's production, boosting global copper prices and even denting Chile's GDP, heavily reliant on the red metal.

That was a scenario BHP wanted to avoid, particularly given strong current demand and global copper prices, analysts and other experts said. Demand for the metal is expected to shoot up, driven by the rise of electric vehicles and artificial intelligence technologies.

"The specter of the 44-day strike in 2017 created constant fear throughout the negotiations," said Andres Gonzalez, an analyst at mining consultancy Plusmining. "BHP wanted to avoid something similar, which pushed them to seek an agreement."

The two sides were also not so far apart when the strike started, he noted, making a middle ground easier to achieve.

The union's position also appeared to be buoyed by the public perception of BHP having capital to spare. The miner is among the world's biggest, turning out more than a million metric tons of copper a year at Escondida alone.

It recently sought to acquire Anglo American in a $49 billion deal before scrapping the offer.

"Its current image is that of a company that has capital available to acquire assets or even invest in mergers ... so the union was going to insist on achieving its goals," said Cristian Cifuentes, an analyst at Chilean think tank Cesco.

Despite occasional strikes, Chile's mining industry largely manages to renew workers' collective contracts without conflict and even in advance, avoiding the risk of disrupting production.

Escondida is unique due to its large size and powerful union, which represents 2,400 people, almost all in key operational roles. The union has frequently clashed with BHP.

'PROFITS HAVE TO BE PAID TO WORKERS'

Analysts are now watching whether Escondida will set a precedent, but say other mines in Chile are not necessarily in similar situations, such as those that are smaller or grappling with problems in production and costs.

State-run copper giant Codelco, fighting to revive production from a 25-year low, is due for pay negotiations at its Ministro Hales mine in September, followed by the El Teniente and Gabriela Mistral mines in October.

At each site, the unions represent a substantial part of the overall workforce. Of particular note is El Teniente, one of Codelco's biggest mines, a complex that represented more than a quarter of company copper production last year.

El Teniente workers are represented by five separate unions, but those combined represent more than 80% of total workers, or 3,200 people.

"What is worrying is how the unions at El Teniente will react," Cifuentes said.

Workers from one of three unions at Lundin Mining's Caserones copper mine in Chile also went on strike one day before the Escondida strike and remain so.

"The price of copper has been quite favorable in recent months... Those profits have to be paid to the workers," said Marco Garcia, president of the striking Caserones union, though he admitted the Escondida union had more "productive pressure."

"We know that the next three years will be quite profitable for Caserones in the production of copper," he added. "That's what leads us to our position and to be able to demand higher wages for the members of our union."

The Caserones management is due to negotiate with other unions at the site later this year.

The head of Chilean mining association SONAMI, Jorge Riesco, cautioned that it is necessary to strike a balance between worker pay and industry competitiveness.

"It is legitimate for workers to aspire to better working conditions, but it is important that they also consider other aspects," he said. "Issues of labor productivity and industry competitiveness should also be on the table."

Top News - Carbon & Power

China's July coal import surge boosts its major suppliers, except Russia

China increased its coal imports from Indonesia, Mongolia and Australia, customs data showed, as shipments surged in July on hotter weather, but Russian exporters were held back by sanctions and logistical issues.

Indonesia - the largest coal exporter to China and the world - increased its coal volumes 22% on the year to

19.24 million metric tons last month, according to the General Administration of Customs, as importers turned to the low-cost supplier to stock up for the peak summer season.

China's coal imports from all sources rose to a seven-month high of 46.21 million tons in July, up 18% on the year, customs data published on Aug. 7 showed.

Russian coal imports however fell 3% in July to 8.76 million tons, weighed down by payment difficulties and logistical issues despite Russia's decision to suspend coal export duties during May-August.

Sanctions on some of Russia's top coal exporters have made it more difficult for Chinese buyers to settle transactions while transport capacity limits have reduced Russia's coal exports.

China has been the biggest buyer of Russian coal, taking 45% of the country's shipments from December 2022 to July 2024, Centre for Research on Energy and Clean Air analysis showed.

Mongolian coal exports to China, mostly of coking coal, also rose, gaining by 23% to 7.31 million tons, in a government-driven push to improve cross-border rail connections.

Australian coal exports to China increased 14% to 7.17 million tons. Australian shipments have been recovering since February 2023, when China ended an informal ban in place since 2020, amid warming trade relations between the two countries.

Much of the increase in overall coal imports was driven by long-term contracts signed by traders ahead of the summer season, when air conditioners drive up electricity demand.

But demand failed to meet expectations because of soaring renewable power installations and thermal power generation dropped year-on-year for a third straight month in July, according to the statistics bureau.

New Zealand to reduce availability of emission credits from 2025

The New Zealand government said it would more than halve the number of units it makes available to offset carbon emissions between 2025 to 2029, as part of a plan to restore confidence in the emissions trading scheme market.

Auctions for New Zealand units, which represent one metric tonne of carbon dioxide, or the equivalent of any other greenhouse gas, have consistently failed over the past year due to oversupply leading to a loss of confidence in the system.

Climate Change Minister Simon Watts said in a statement that the government had decided to reduce the number of units available between 2025 and 2029, from 45 million to 21 million.

"There is an oversupply of units held by participants which has contributed to a depreciated price of carbon. This has led, in part, to the failure of recent auctions to clear, and poses a risk to achieving our climate targets and emissions budgets," he added.

This limit is for units provided by the government for industrial allocation and purchase at auction but does not limit the volume of units that are issued to those removing greenhouse gases from the environment such as forest owners.

The government said it would retain the current auction floor price, the cost containment reserve price, and current reserve volumes of New Zealand units.

"These settings are doing their job and should be left alone," Watts said.

Top News - Dry Freight

Egypt still aims to secure 3.8 million tonnes of wheat by year end

Egypt remains confident of securing its target of around 3.8 million metric tonnes of imported wheat by the end of 2024, through a combination of tenders, direct purchases and government-to-government agreements, a minister said on Monday.

"We still have (a) green light to engage in direct talks to get the best price," Supply Minister Sherif Farouk told reporters on Monday, adding that Egypt should be afforded certain "advantages" in its wheat imports, whether through favorable payment terms or preferential pricing, because of the significance of its wheat buying.

Egypt's state grain buyer, the General Authority for Supply Commodities (GASC), launched a tender on Aug. 6 which traders said was the biggest ever by the world's largest wheat importer.

But on Aug. 12 it said it had purchased only 280,000 tonnes, falling significantly short of its target.

Traders attributed the shortfall to higher prices driven by the extended payment delays that were offered. Since then, GASC has engaged in informal discussions with suppliers, traders said.

"We are in constant talks with everyone; traders, governments, and even farmers' unions," GASC Vice Chairman Hossam El Garahy told reporters.

Traders estimate that GASC is aiming to purchase up to 1.8 million tonnes of wheat, from sellers including Russia, at a reported free-on-board price of around $248 per tonne, with payment made via 270-day letters of credit.

"We are confident that we can buy (wheat) at discounted prices from our two main sources, thanks to balanced foreign relations," Farouk said.

While he did not specify the sources, Russia and the EU have been key suppliers for Egypt. He also noted Egypt is exploring the possibility of adding Turkey as a new origin for wheat imports, following Algeria's recent significant purchase from the country.

Farouk said Egypt's wheat reserves currently cover well over six months of demand, but the supply ministry aims to extend reserves to more than nine months to mitigate potential "geopolitical tensions".

"Our goal is to always maintain a reserve enough for over six months for all strategic commodities," Farouk said.

El Garahy said Egypt's wheat reserves cover 6.3 months, vegetable oils enough for 6.2 months, and sugar for 13 months.

Farouk also said that while GASC could access loans to buy wheat at sight, or for immediate payment, it is still seeking better payment terms.

Canada tells rail companies, union to work harder to avert crippling stoppage

Canada's labor minister will meet with the country's two main railway companies and the Teamsters union in Montreal on Tuesday and Calgary on Wednesday to try to avert a crippling rail transport stoppage.

Unless labour agreements are reached, both Canadian National Railway and Canadian Pacific Kansas City will shut all freight rail services in Canada at the same time early on Thursday for the first time in history.

Federal Labour Minister Steven MacKinnon's office said on Monday evening he will urge the companies and union "to fulfill their responsibility to Canadians, reach agreements at the bargaining table, and prevent a full work stoppage."

Canada - the world's second-largest country by territory - relies heavily on CN and CP to ship food grains, fertilizers and other commodities, along with manufactured goods such as chemicals and automobiles. The country's main business lobby group said it estimates losses would hit C$1 billion ($733 million) a day in case the rail stoppages proceed.

Federal mediators are working with the companies and the union, but those involved in the discussion say little progress has been made. The union says CN Rail and CPKC want to dilute safety provisions, a charge the companies deny.

MacKinnon has the power to force the union and railway companies into binding arbitration, but has so far said he wants them to sort out their differences at the negotiating table.

In a statement on Monday, the left-leaning New Democratic Party called on Prime Minister Justin Trudeau to not intervene in the labour disputes. Trudeau's government is being kept in power by the New Democratic Party, which has traditionally enjoyed strong union support.

Labour talks started early this year, but progress has been slow, with both the union and the companies accusing each other of bad faith.

CN Rail and CPKC have already stopped accepting shipments of hazardous goods and have begun phased shutdowns of operations in Canada.

Maersk said on Monday it would stop accepting some Canada-bound shipments.

Separately, U.S. freight forwarder C.H. Robinson, said on Monday it was diverting some of its U.S. customers' ocean cargo away from Canadian ports as the threat of a rail strike looms.

"Both railroads simultaneously being out of commission would paralyze the ports and put instant pressure on trucking," the company said.

Canada is a major agricultural producer, and farmers will start bringing in their harvests in August and September.

Quorum Corp, which monitors grain handling and transportation, said daily volumes in early September would increase to 138,000 metric tons with a value of around C$75 million.

"After a period of time, sales will be lost and the value of Canada's grain will decrease ... the largest concern is a further degradation of Canada's reliability as a supplier, which is already suffering due to past labor disruptions," Quorum President Mark Hemmes said in an emailed statement.

Refrigerated containers with meat and some highly perishable produce are of particular concern because delays would likely mean spoilage. Shippers of such items have already begun holding back containers, said Peter Friedmann, an executive director at the Agriculture Transportation Coalition.

In a statement, the Greater Vancouver Board of Trade warned a full work stoppage would drive up prices and exacerbate an affordability crisis in the country.

"Every facet of daily life would be impacted as our national economy grinds to a halt," it said.

Picture of the Day

Oil stains a beach after an oil spill, in Boca de Aroa, Venezuela, August 19. REUTERS/Juan Carlos Hernandez

(Inside Commodities is compiled by Haritha K P in Bengaluru)

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

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

LSEG
10 Paternoster Square, London, EC4M 7LS, United Kingdom

Please visit: **LSEG** for more information

Privacy statement