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

# Top News - Oil

**US West Coast refiners still waiting for TMX margin boost**

Canada's expanded Trans Mountain (TMX) oil pipeline, which commenced commercial operations in May, so far has had little impact on crude costs at refineries on the U.S. West Coast, according to companies operating there.

The expansion, which tripled pipeline capacity from Alberta to Canada's Pacific Coast to 890,000 barrels per day (bpd), increased the access to Canadian heavy crude oil to West Coast refiners and opened up a new route to Asia.

U.S. West Coast refiners, which mainly import crude by ship, were expected to be among the main outlets for the Canadian barrels.

In the first three months since TMX began operations, however, most of the TMX barrels have been exported to markets in Asia, said Brian Mandell, executive vice president of marketing and commercial for Phillips 66.

“About two-thirds of the incremental TMX barrels have been going to Asia, which has been a bit of a surprise for us,” Mandell said during a call with investors last month.

The Houston-based refiner said in April the access to lower-cost heavy barrels from Canada would help boost earnings in its refining operations on the West Coast, both in California and Washington.

Independent refiners are grappling with weaker-than-expected fuel demand, which dampened margins in the second quarter.

Phillips 66's realized margins fell to $10.01 per barrel from $15.32 a year earlier.

Marathon Petroleum's refining margins for the second quarter came in at $17.37 per barrel, compared with $22.10 per barrel a year ago. Valero Energy said its refining margins were nearly 28% lower than last year.

Given that shipping barrels to Asia is logistically more complicated and costly compared with the readily available U.S. market, many investors believed the majority of TMX crude would head to West Coast first, said Scotiabank analyst Paul Cheng said in an interview.

"But it turned out that was not what happened," he added.

The assumption was the fresh flow of crude oil would displace heavy oil imported to the West Coast from Latin America or the Middle East and allow refineries there to save on shipping costs, Cheng noted.

Many analysts had forecast the differential on Western Canada Select (WCS) versus U.S. crude would gradually narrow due to the additional export capacity offered by TMX. But the spare pipeline capacity failed to boost Canadian crude prices in first three months.

Marathon’s Los Angeles refinery, the largest on the West Coast with a capacity of 365,000 bpd, would be among the main destinations for TMX's heavy sour crude grades.

Other facilities on West Coast, including Valero's Benicia refinery and Chevron's El Segundo refinery, also take TMX crude.

The U.S. West Coast has around 2.5 million bpd of capacity, according to the Energy Information Administration (EIA).

ANS UNDER PRESSURE

Refiners could start seeing crude costs go down in the coming months as the incremental Canadian heavy barrels compete with Alaskan North Slope (ANS) and other crudes which are widely used by West Coast refiners, executives said.

“What has changed that is significant and quite helpful to us is as these incremental Canadian barrels have come into the market, it has put pressure on the ANS barrels,” said Marathon's Chief Commercial Officer Rick Hessling.

Average ANS prices fell to the range of $85 per barrel from around $90 in April, according to data from General Index.

Lower ANS prices are anticipated to start cutting crude costs for West Coast refiners, said Gary Simmons, chief operating officer at Valero.

ANS and other crudes will continue to be part of the West Coast refinery slate as refiners are still testing whether running Canadian heavy sour crude will create issues or inefficiencies in their refining systems down the line.

"Over time as you test that grade, you will see what type of natural oils you need to use to blend (with Canadian heavy crude) so it gives you the best yield in your

configuration," said Scotiabank's Cheng. "That process will take months."

**EXCLUSIVE-BP-Iraq deal on Kirkuk fields to use profit-sharing model**

Iraq will share profits with BP from developing its giant Kirkuk oil and gas fields, two officials said on Tuesday, as the country moves away from low-margin service contracts to speed up production growth and lure back Western majors.

Several oil majors, including BP, in recent years turned to other countries offering better terms. They complained the traditional oil service contracts in Iraq that paid a flat rate for every barrel of oil produced after reimbursing costs, prevented them benefiting from rising oil prices.

Iraq and BP, which is returning after a nearly five-year absence, signed a preliminary agreement earlier this month to develop four oil and gas fields in northern Iraq's Kirkuk. BP has estimated the Kirkuk field holds about 9 billion barrels of recoverable oil.

The two oil ministry officials told Reuters the contracts with BP to develop the Kirkuk, Bai Hasan, Jambour and Khabbaz fields would be on a profit-sharing model.

BP declined to comment beyond its Aug. 1 statement on the preliminary deal.

Speaking on condition of anonymity because they were not authorised to speak to the press, the officials said the oil ministry and BP were expected to sign a confidentiality agreement this week, after which Iraq will hand over the data package for Kirkuk's four fields and installations.

A final agreement is expected by the end of this year, the officials added. BP had said it expected negotiations over the preliminary agreement to be complete early in 2025.

BP and the Iraqi oil ministry signed in 2013 a letter of intent to study developing Kirkuk.

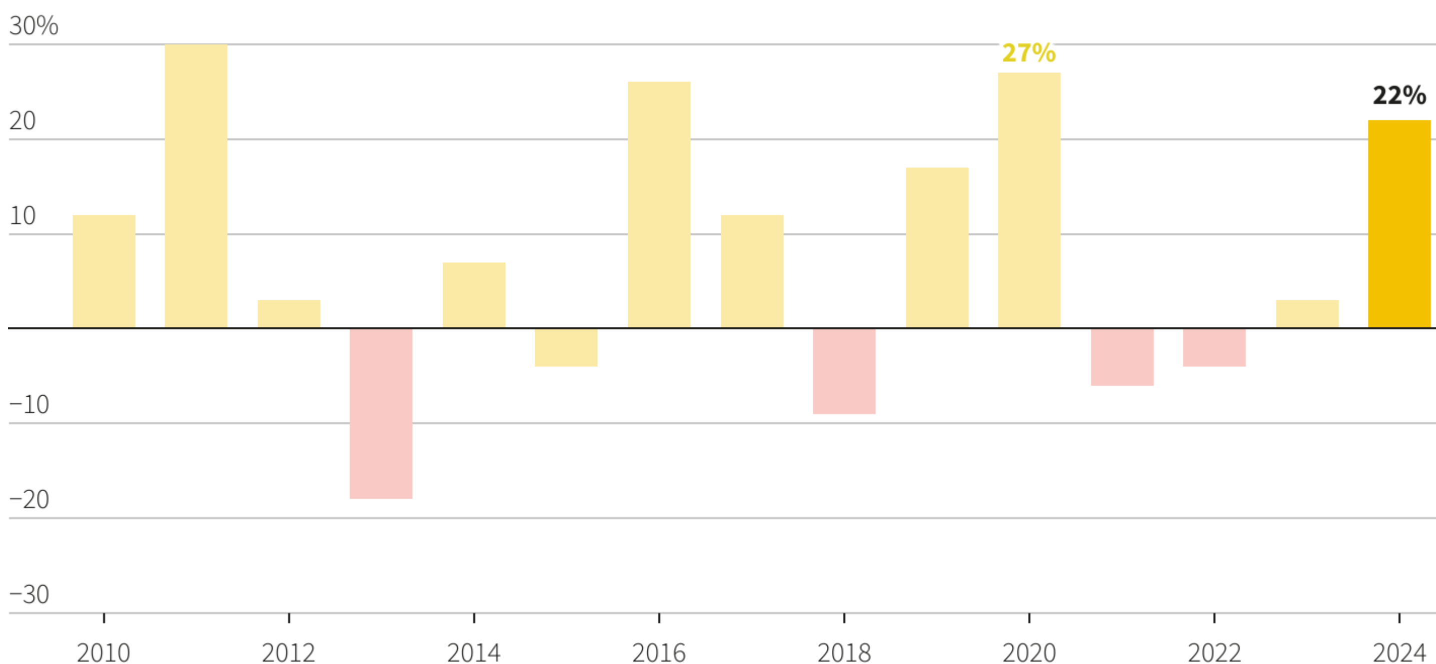
That deal was put on hold in 2014 when the Iraqi military collapsed in the face of Islamic State's advance in northern and western Iraq, allowing the Kurdish Regional

## Chart of the Day

# Gold's yearly performance

The price of gold hit record highs above $2,500 per ounce and is on track for its biggest annual gain since 2020.

**Gold price change since the beginning of year**




Source: LSEG Data | Reuters, Aug. 21, 2024 | By Vineet Sachdev, Swati Verma

LSEG DATA & ANALYTICS

Government (KRG) to take control of the Kirkuk region.

Baghdad regained full control of the deposit from the KRG in 2017 after a failed Kurdish independence referendum, at which point BP resumed its studies on the field.

But in late 2019, BP pulled out of the oilfield after its 2013 service contract expired with no agreement on the field's expansion.

Iraq, the second biggest producer in the Organization of the Petroleum Exporting Countries behind the group's de facto leader Saudi Arabia, has the capacity to produce almost 5 million barrels per day.

Kirkuk was discovered in 1927 and marks the birthplace of Iraq's oil industry. Its fields produce about 245,000 barrels per day, the officials said.

BP said earlier this month that rehabilitating existing facilities, building new ones, where needed, and other measures could stabilise production and reverse decline at Kirkuk.

## Top News - Agriculture

**Crop tour finds massive Indiana soybean potential, corn at 3-yr high**

Indiana's soybean pod count is the largest seen on the Pro Farmer crop tour in 22 years and the state's corn yield prospects are at a three-year high, scouts on the annual U.S. Midwest tour reported Tuesday. The four-day tour of top U.S. grain and oilseed producing states, which does not project soybean yields, estimated the average number of soybean pods in a 3-foot by 3-foot (91-by-91cm) square in Indiana at 1,409.02 pods - the most reported since 2002, tour officials said Tuesday evening.

Meanwhile, Nebraska's corn yield prospects and soybean pod counts are at levels not seen since 2021, surpassing both last year's findings and their three year averages, scouts found.

The tour's findings are among the first large-scale farm reporting that supports the U.S. Department of Agriculture's latest forecast for record U.S. corn and soybean yields. Grain and oilseed prices are near four-year lows amid ample global supplies and concerns about demand from top buyer China. In Indiana, the tour's average soybean pod count was up 7.6% from 2023, when the state notched a record soybean yield.

Last year's tour found an average of 1,309.96 pods in Indiana and the three-year average was 1,238.55 pods.

Meanwhile, the tour projected Indiana's average corn yield at 187.54 bushels per acre (bpa), above the 2023 tour average of 180.89 bpa and the three-year average of 184.07 bpa.

Well-timed rains generated by the remnants of Hurricane Beryl helped in early July, when the state was getting abnormally dry, said tour leader Brian Grete, editor of Pro Farmer.

"They (farmers) are going to be really pleased with how the soybeans finish, if they have normal weather" between now and harvest, Grete said.

In Nebraska, the average corn yield was projected at 173.25 bushels per acre (bpa), above both the 2023 tour average of 167.22 bpa and the three-year average of 169.37 bpa. The tour projected Nebraska's soybean pods at 1,172.48 pods in a 3-foot-by-3-foot square, above both last year's average of 1,160.02 pods and the three-year average of 1,150.06 pods.

The tour will give forecasts for Illinois and the western third of Iowa on Wednesday.

**Argentina's next corn crop seen covering 17% less farmland amid pest fears**

Argentina's upcoming 2024/25 corn crop is seen covering 6.3 million hectares, down 17% compared to the previous cycle as pest and weather concerns mount, the Buenos Aires grains exchange announced on Tuesday.

The smaller estimate - the exchange's first forecast for the 2024/25 season - comes amid fears that the crop will be hurt by the impact of a costly leafhopper insect plague.

The insects, which spread a stunt disease that damages corn, had caused the exchange to trim 10 million tons off its production forecast for the prior 2023/2024 corn crop.

"The main and most worrying (reason for the decline) has to do with the growing uncertainty about the impact of the virus and bacteria complex associated with Dalbulus maidis," the leafhopper's scientific name, the exchange said in a report.

Argentina, the world's third-largest corn exporter, also expects planting to be impacted by lower-than-normal rainfall as a result of the La Nina climate phenomenon.

The exchange noted a decrease in the grain's profitability, due to a drop in the price of corn, as another reason for the smaller area.

## Top News - Metals

**China's 2024 rare earths mining output quota rises 5.9% from 2023 total**

China has set its second batch of 2024 rare earths mining output quota at 135,000 metric tons, the country's Ministry of Industry and Information Technology said on Tuesday. The volume, representing a year-on-year rise of 12.5%, brought the total so far this year to 270,000 tons, an increase of 5.9% compared with the total in 2023 when three batches of quotas were issued.

An official from the state-backed the Association of China Rare Earth Industry forecast in late May the 2024 total mining output quota at 270,000 tons.

China, which accounts for 70% of rare earths mining and 90% of refined output, according to the U.S. Geological Survey, controls its supply through a closely watched quota system, typically issued twice in a year.

Rare earths are a group of 17 elements used in products from lasers and military equipment to magnets found in electric vehicles, wind turbines and consumer electronics.

The ministry also set the quota for smelting and separation of rare earths at 127,000 tons, rising 10% from the year before.

That brought the year-to-date quota for smelting and separation to 254,000 tons, a rise of 4.2% versus the total in 2023.

The release of the second batch of quota hit the market by surprise as many participants previously expected it to be unveiled in the coming September.

The quotas for mining output as well as smelting and separation were issued to China Rare Earth Group and China Northern Rare Earth Group High-Tech, the ministry said in a statement.

Industry participants told Reuters earlier that rare earth quotas in China are set to rise at a much slower rate this year amid a supply glut.

"The volumes missed our expectation though we had expected the rising pace to slow further this year," said a Shanghai-based analyst, requesting anonymity as he is not authorised to speak to media outlets. "And based on the wording, we do not think there will be a third batch of quota this year."

Weak demand for rare earths combined with ample supplies are weighing on prices, with little near-term catalyst in sight, industry participants said.

**MARKET MONITOR as of 06:57 GMT**

| Contract | Last | Change | YTD |
|---|---|---|---|
| NYMEX Light Crude | $73.23 / bbl | -1.09% | 2.21% |
| NYMEX RBOB Gasoline | $2.08 / gallon | -0.14% | -1.22% |
| ICE Gas Oil | $698.75 / tonne | 0.98% | -6.93% |
| NYMEX Natural Gas | $2.20 / mmBtu | 0.27% | -12.33% |
| Spot Gold | $2,514.11 / ounce | 0.01% | 21.89% |
| TRPC coal API 2 / Dec, 24 | $130 / tonne | -1.33% | 34.02% |
| Carbon ECX EUA | €73.28 / tonne | 0.29% | -8.82% |
| Dutch gas day-ahead (Pre. close) | €37.15 / Mwh | -4.74% | 16.64% |
| CBOT Corn | $4.00 / bushel | 0.50% | -17.36% |
| CBOT Wheat | $5.58 / bushel | 0.27% | -12.74% |
| Malaysia Palm Oil (3M) | RM3,732 / tonne | 0.46% | 0.30% |
| **Index** | **Close 20 Aug** | **Change** | **YTD** |
| Thomson Reuters/Jefferies CRB | 326.82 | 0.03% | 8.43% |
| Rogers International | 26.53 | -0.79% | 0.78% |
| U.S. Stocks - Dow | 40,834.97 | -0.15% | 8.35% |
| U.S. Dollar Index | 101.51 | 0.07% | 0.17% |
| U.S. Bond Index (DJ) | 445.27 | 0.28% | 3.38% |

**COLUMN-China's rare copper export boom signals more than weak demand: Andy Home**

A rare burst of Chinese exports has deflated bull spirits in the copper market, with funds dumping long positions and prices down by 16% from the record highs seen in May.

The world's largest buyer of copper shipped out an unprecedented 158,000 metric tons of refined metal in June. First-half exports of 302,000 tons were already higher than any full calendar year since 2019.

This break of normal trade patterns has punctured a bull narrative of constrained supply and cyclical demand recovery.

Weak Chinese purchasing managers indices show that activity in the country's manufacturing sector sank to a five-month low in July, reinforcing Doctor Copper's gloomy message.

Yet demand weakness is only part of the story.

Fast-rising domestic production and a flood of African imports have saturated the local market. And then a ferocious squeeze on the CME contract in May opened an equally unusual export arbitrage window for that excess to flow out.

TOO MUCH COPPER

China produced 5.9 million tons of refined copper in the first half of the year, according to local data provider Shanghai Metal Market. That represented year-on-year growth of 6.5%, equivalent to an extra 359,100 tons.

The robust growth rate runs counter to expectations that domestic production would fall after the country's smelters committed in March to curtail output due to tight raw materials supply.

It's true that many smelters have taken maintenance downtime in recent months, but the cumulative impact has simply been a moderation of the supercharged rate of expansion.

Rising smelter output has coincided with a period of high refined copper imports.

Although the export burst has significantly reduced China's net call on the international market, the country's imports have remained strong. Volume rose by 16% year-on-year to 1.9 million tons in the first six months of 2024.

China also imported significantly more scrap copper, volume increasing by 18% year-on-year to 1.2 million tons in January-June.

Chinese demand would have had to be super-strong to absorb the simultaneous combination of more domestic and more import supply. Clearly, it wasn't strong enough.

THE RISE OF THE CONGO

The core driver of China's higher metal imports has been the Democratic Republic of Congo (DRC). The country last year overtook Peru as the world's second-largest copper producer and shipped more metal to China than top producer Chile.

Trade flows between the two countries continue to accelerate, with China's imports jumping by 91% year-on-year to 698,000 tons in January-June. The June tally of 150,000 tons was a new monthly record.

Given China's dominant role in DRC's copper-cobalt mining sector, trade flows between the two countries are unsurprising.

However, it's also the case that there is no other equivalent market for Congolese copper, including the world's big three exchanges.

The London Metal Exchange (LME) currently has only one Congolese brand on its good delivery list - "SCM", produced by La Sino-Congolaise Des Mines with annual capacity of 82,400 tons.

DRC copper is not deliverable against either the CME or Shanghai Futures Exchange (ShFE) contracts.

With Chinese demand insufficiently strong to absorb surging imports, Congolese metal has washed around the domestic market, dragging down both premiums and prices to the detriment of local smelters.

(NOT) GOOD DELIVERY

CME's limited good-delivery list of copper brands is one reason the U.S. contract got squeezed so badly in the second quarter.

Stocks fell to just 8,117 tons at the start of July, as shorts found their capacity for physical delivery largely confined to U.S., Canadian or Latin American brands.

Inventory has since rebuilt to 23,620 tons, but it has been a painfully slow process.

When the squeeze was at its most acute in May, CME copper was trading at a premium of $1,100 per ton over LME copper. Both were priced much higher than the well-supplied Shanghai market.

The net result was a rare export window for Chinese producers to ship surplus metal.

China shipped 16,000 tons of refined copper to the United States in June, which is an extremely unusual phenomenon. But the metal can't be delivered against

CME shorts since the exchange has no Chinese brands on its good delivery list.

However, Chinese metal can be delivered to the LME, which currently accepts 22 Chinese brands of copper.

Most of what China has exported has headed to South Korea and Taiwan, both LME good-delivery locations.

LME stocks included just 400 tons of Chinese copper in February. That mushroomed to 121,700 tons at the end of June, with Chinese metal accounting for almost 54% of total registered inventory.

Were there seamless physical arbitrage between the CME, LME and ShFE, China could have shipped directly to the CME, or diverted excess Congolese copper to the United States.

The reality has been a tortuous reconciliation of regional imbalances. Chinese surplus is moving to the West but largely via LME warehouses in Asia.

The LME at least is emerging as a potential market of last resort for Congolese copper. It received its first 500 tons of "SCM" brand metal in June. Other Congolese producers, including China's CMOC, are seeking to list their brands.

The CME good-delivery list, by contrast, accounts for a shrinking share of global production.

Analysts at BNP Paribas calculate the volume of deliverable copper has shrunk from seven million tons in 2010 to around four million.

The CME has the disadvantage of operating only domestic good-delivery points, leaving it exposed to broader U.S. trade policy against China, Russia and other countries deemed problematic.

But while physical delivery options remain constricted, a repeat of the May squeeze is not inconceivable.

OPTICAL ILLUSION

Reading Chinese copper exports as a simple signal of weak demand misses the impact of the extraordinary squeeze on the CME and the divergence in good-delivery options on the three exchanges.

Chinese copper demand may be slower than expected but it hasn't fallen off a cliff. State research house Antaike is forecasting 2.5% growth in usage this year.

China's export burst, meanwhile, appears to be winding down, with outbound shipments falling to 70,000 tons in July.

ShFE stocks have been sliding since the start of July, and at 262,206 tons are now 75,000 tons below the June peak.

The Yangshan import premium, which fell into negative territory in May, has risen to $53 per ton.

It may not be too long before some of what China has exported turns around and heads home.

## Top News - Carbon & Power

**EXCLUSIVE-Kuwait in talks with Qatar for new 15-year LNG supply deal from North Field**

Qatar Energy is in talks with Kuwait Petroleum Corporation (KPC) for a new long-term supply of liquefied natural gas (LNG) to help meet rising demand for power generation in the Gulf Arab state, five trading and industry sources told Reuters.

The deal would see Qatar providing Kuwait with 3 million metric tons per annum (mtpa) of the seaborne fuel over 15 years from its North Field project, which is expected to commence operation in 2026, four of the sources said.

Kuwait, an OPEC member and a major oil producer, has been boosting its reliance on imported gas to meet power demand, especially in summer when consumption by air conditioning systems rises sharply, but it is also focusing on ramping up gas production as part of its 2040 growth strategy.

This week, Kuwait faced a second round of scheduled power outages this summer, due to a defect in the gas supply, despite officials indicating there would be no more cuts after the first round in June. Summer temperatures regularly soar above 50 degrees Celsius, raising use of air conditioning and power demand.

The deal is expected to be announced in the fourth quarter of this year, one of the sources said.

A fifth source at KPC said "arrangements" were still being made.

Qatar Energy and KPC were did not immediately respond to Reuters request for comment.

Qatar, one of the world's top LNG exporters, plans an 85% expansion in LNG output from its North Field's current 77 million metric tons per year (mtpa) to 142 mtpa by 2030, from previously expected 126 mtpa.

Authorities have urged residents to cut back on electricity use during peak consumption times between 11am and 5pm local time.

In 2020, Kuwait signed a 15-year agreement with Qatar for the supply of 3 mtpa of LNG and would expire by 2035. The new deal from North Field expansion project would mean Qatari supplies to Kuwait will amount to 6 million mtpa at some point later this decade.

**COLUMN-China's record hydro and solar cut coal power during heatwave: Kemp**

China's electricity consumption smashed the previous record in July as a prolonged heatwave settled over major load centres, especially in the Yangtze Delta, driving an enormous increase in air-conditioning and refrigeration.

Unprecedented load was met by record output from hydro and solar, ensuring coal-fired generation fell slightly compared with the same period a year earlier, showcasing the rapid transformation of the system.

Total generation increased to a record 883 billion kilowatt-hours (kWh) in July from 846 billion kWh in the same month in 2023 and 806 billion kWh in 2022, according to the National Bureau of Statistics.

Much of the increase was down to a long period of exceptionally hot weather in eastern regions, especially province-level areas lying on the lower reaches of the Yangtze, including Shanghai, Zhejiang, Jiangsu and Anhui.

Daily temperatures at Nanjing in the Yangtze Delta averaged 30.4 °C compared with 28.7 °C a year earlier and about 2.5 °C above the long-term seasonal norm.

Nanjing temperatures have been above normal in 42 of 50 days since the start of July, pushing airconditioning and refrigeration demand to a record.

The delta is home to 237 million people, 17% of the country's total population, and accounts for 24% of national economic output, making it the largest load centre.

As a result, regional heatwaves can drive peak consumption across the entire national transmission network and draw in power from provinces to the west and south.

Several cities and provinces in the delta called for conservation during the heatwave to lower electricity demand.

But overall the transmission system coped because record consumption was more than matched by huge increases in hydro and solar generation in other parts of China.

RECORD HYDRO

Nationwide hydro generation increased by 45 billion kWh compared with the same month a year earlier while output from solar farms was up by 10 billion kWh with a smaller increase from wind farms of 5 billion kWh.

The result was that thermal generation, almost all from coal, declined by 25 billion kWh compared with July 2023, despite record electricity demand.

Unprecedented amounts of hydro power were transmitted from dams on the middle and upper reaches of the Yangtze eastwards to the delta.

Hydro generation surged to a record 166 billion kWh in July from 121 billion kWh in the same month a year earlier, easily passing the previous seasonal record of 146 billion in 2022 and 2020.

After the drought lasting from the middle of 2022 to the end of 2023, plentiful monsoon rains enabled generators to make full use of newly commissioned cascade dams on the Yangtze system for the first time.

Even now, enormous volumes of water are still impounded behind dams and in seasonal reservoirs for flood control, which is likely to sustain hydro generation at record seasonal levels through August and into September.

SOLAR SURGE

Electric reliability during the summer peak was also guaranteed by unprecedented deployment of solar farms and record generation from solar power.

Solar generation surged to a record 36 billion kWh in July from 26 billion kWh in the same month in 2023 and 21 billion kWh in 2022.

Solar generation has been driven by a huge increase in installed capacity, which has more than doubled since the end of 2021.

The figures do not include increasing amounts of self-generation by residential and commercial users from rooftop solar panels.

COAL DOMINANT

Extra generation from hydro and solar reduced the system's reliance on fossil fuels during the summer peak but it remained very high.

Thermal producers still accounted for 65% of all generation in July down from 71% in 2023 and 73% a decade ago.

Thermal generation may be declining relative to other sources of electricity but it has still grown in absolute terms over the last decade because total demand has increased so fast.

Thermal generation amounted to 454 billion kWh in July, down slightly from a record 471 billion kWh in last year's drought, but up by a third from 340 billion kWh in 2014.

EFFICIENCY DRIVE

Most of China's best sites for run-of-river dams have been developed, limiting further gains in hydro output, though there is increasing interest in pumped storage.

The government plans further deployment of solar and wind to boost renewable generation and there are rapidly increasing amounts of small-scale rooftop solar which will cut net load on the transmission network.

Nuclear remains a small part of the system, accounting for 5% of generation in 2023, though the government has approved a big reactor building programme which will boost it significantly by the end of the decade.

However, further reductions in coal combustion depend on major improvements in efficiency among generators and users to reduce coal-firing and slow load growth to allow renewables to play an even bigger role.

## Top News - Dry Freight

**Argentina quarantines grains ship over suspected mpox case**

Argentine authorities have quarantined a cargo ship in the Parana River over a suspected case of mpox onboard, the government said on Tuesday, as global public health authorities remain on alert for a new faster-spreading variant of the virus.

The quarantined Liberian-flagged ship was sailing from Santos, Brazil - also a major commodities hub - to pick up soy cargo, according to the health ministry and industry body the Argentine Naval League.

The World Health Organization (WHO) last week declared mpox a global public health emergency for the second time in two years as a new variant of the virus spread rapidly in Africa. A day later, a case of the clade 1b variant was confirmed in Sweden, the first sign of its spread outside Africa.

The ship near Argentina's inland grains port of Rosario alerted authorities that "one of its crew members of Indian nationality showed cyst-like skin lesions predominantly on the chest and face," the ministry said in a statement, adding the person had been isolated from the rest of the crew.

The ministry said public health emergency protocol was then activated and the ship, which had been bound for the San Lorenzo port in the Santa Fe province, had to drop anchor in the river.

Only medical personnel will be able to board the ship, while the whole crew will be required to quarantine pending test results, the ministry added.

Mpox, a viral infection that causes pus-filled lesions and flu-like symptoms, is usually mild but can kill. The clade 1b strain has caused concern because it seems to spread more easily through routine close contact.

Some 13 countries have reported mpox cases caused by other strains across the Americas this year, according to WHO data as of last week. Argentina has previously recorded eight cases, though none were the clade 1b strain.

Denmark's Bavarian Nordic is set to decide this week on whether to ramp up vaccine production, while Swiss pharmaceutical company Roche has said it is looking to boost its laboratory testing capacity.

**Canada rail stoppage poised to disrupt North American agriculture**

A looming stoppage of freight railway operations across Canada would disrupt North America's agricultural supply chain, snarling shipments of everything from wheat to fertilizer and meat.

Unless last-minute labor agreements are reached, both Canadian National Railway and Canadian Pacific Kansas City, an effective duopoly, will shut nearly all freight rail services in Canada for the first time at midnight on Thursday.

Canada is the world's top exporter of canola, used in food and biofuel, and of potash fertilizer, as well as the No. 3 wheat exporter. While a lockout or strike would directly involve 10,000 Canadian employees of the railroads, not those in the U.S., it would have knock-on effects on the U.S. economy due to the countries' criss-crossing rail lines.

Nearly three dozen North American agriculture groups, in a joint letter to the U.S. and Canadian governments on Monday, urged action to avoid a stoppage.

"The impact of a strike would be particularly severe on bulk commodity exporters in both Canada and the United States as trucking is not a viable option for many agricultural shippers," the letter said, citing large volumes and vast distances.

The rail operators have said lockouts will begin on Thursday. The Teamsters union, which is demanding better wages, benefits, and crew scheduling, has issued a Thursday strike notice to CPKC.

The stoppage will halt shipments of U.S. spring wheat from Minnesota, North Dakota and South Dakota to the Pacific Northwest for export, said Max Fisher, chief economist at the National Grain and Feed Association.

CPKC ships grain from the Dakotas and Minnesota to west-coast export terminals via Canada, according to the U.S. government.

U.S. farmers still have nearly two-thirds of the spring-wheat crop to harvest, the U.S. Department of Agriculture said on Monday. Soy, corn and canola harvests are still a few weeks away in North America.

Canada's prairie elevator network would run out of storage capacity within 10 days of a stoppage, said Mark Hemmes, head of Quorum Corp, which monitors Canadian grain handling and transportation.

Shippers are also concerned about U.S. corn products heading to Canada. In 2023, Canada was the top destination for U.S. ethanol exports, and almost three-quarters traveled by rail, according to USDA.

"We just can't have the railroads not operating," Fisher said.

The U.S. exported $28.2 billion of agricultural products last year to Canada, its third-largest destination for agricultural exports behind China and Mexico, USDA said.

The U.S. imported $40.1 billion of Canadian agricultural products last year, making Canada the second-largest origin of U.S. agricultural imports behind Mexico, the agency said.

About 85% of the 13 million metric tons of U.S. potash imports last year came from Canada, nearly all of which crossed by rail, according to USDA.

'NO GOOD TIME'

U.S. corn farmers apply fertilizers in fall and spring, but potash imports from Canada are consistent throughout the year, said Krista Swanson, chief economist for the National Corn Growers Association.

"Given constant trade flows and the importance of the trade relationship between the two nations, there is no good time for this to occur," Swanson said.

The railways move an average of 69,000 tons of fertilizer product per day, equivalent to four to five trains, said Fertilizer Canada spokesperson Kayla FitzPatrick. Disruptions will cost the industry C$55 million ($40.34 million) to C$63 million per day in lost revenue, not including logistical and operational costs, she said.

Canadian meat producers warned that a rail stoppage would result in millions of dollars in losses and waste.

The Canadian Meat Council and Canadian Pork Council said some processing plants expect to lose up to C$3 million a week, and noted these facilities would be forced to shut down within seven to 10 days of a rail stoppage. Once the railways resume service, it would take two to five weeks for plants to return to normal capacity.

There is concern that the movement of Ontario soybeans to export markets, primarily Japan, will completely stop just before the harvest, said Crosby Devitt, CEO of Grain Farmers of Ontario.

With crop-shipment delays lasting beyond a week, companies must pay contract penalties and demurrage for ships waiting for grain to arrive, piling significant cost onto the industry, said Wade Sobkowich, executive director of the Western Grain Elevator Association.

"We'll be playing catch-up for the rest of the harvest year, till next July," he said.

## Picture of the Day

*A view of dried sunflowers, during a heatwave as temperatures reached more than 36 degrees Celsius in some parts of the country, on a field near Sankt Andrae, Austria, August 15. REUTERS/Leonhard Foeger*

(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**.

© 2024 London Stock Exchange Group plc. All rights reserved.

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

Please visit: **LSEG** for more information

**Privacy statement**