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Top News - Oil

US oil stocks fall more than expected on strong export, refinery demand -EIA

Crude oil inventories drew down by 10.6 million barrels last week, more than expected on the back of robust exports and sturdy demand from refineries, according to data from the Energy Information Administration.
Crude inventories dropped to 422.9 million barrels, the lowest level since Dec. 30.
Analysts' expectations in a Reuters poll were for a 3.3 million-barrel drop.
Crude stocks at the Cushing, Oklahoma, delivery hub fell by 1.5 million barrels in the week to Aug. 25, EIA said.
Net U.S. crude imports fell last week by 586,000 barrels per day (bpd), EIA said.
"Imports were down, and exports up as the Brent/WTI spread is starting to drift out towards minus $5," said Mizuho analyst Robert Yawger.
The spread determines the economics of shipping and a wider discount makes crude oil more attractive to foreign buyers.
Crude futures spiked briefly on the data, but gave up the gains later. Brent crude was 9 cents or 0.1% higher at $85.54 a barrel at 11:11 a.m. ET (3:11 p.m. GMT) Wednesday, while U.S. crude futures rose 16 cents or 0.2% to $81.32.
Domestic production remained unchanged at 12.8 million bpd. While inputs to refineries remained high, refiners were starting to slow down ahead of the end of summer and into the Labor Day weekend as the driving season is set to come to an end, Yawger added.
Refinery crude runs fell by 173,000 bpd in the last week, EIA said. Refinery utilization rates fell by 1.2 percentage points in the week to 93.3%.
Finished motor gasoline supplied, a proxy for demand, rose to 9.1 million bpd.
"This is probably the last week of gasoline getting a 9 million barrel per day demand number. I would expect it to fall precipitously from here," said John Kilduff, partner at Again Capital. U.S. gasoline stocks fell by 0.2 million barrels in the week to 217.4 million barrels, the EIA said, compared with analysts' expectations in a Reuters poll for a 0.9 million-barrel drop.
Distillate stockpiles, which include diesel and heating oil, rose by 1.2 million barrels in the week to 117.9 million barrels, versus expectations for a 0.2 million-barrel rise, the EIA data showed.

China slowdown, oil output cuts in focus at key energy industry events

China's tepid economic growth and a possible extension of oil output cuts from top exporter Saudi Arabia are set to dominate discussions as global energy executives and officials gather next week at two major industry events in Singapore.
For the first time, the Asia Pacific Petroleum Conference (APPEC) and Gastech will take place in the same week, creating what will be the largest energy sector gathering in Asia since the pandemic.
China's sluggish post-COVID growth, which has curbed fuel and petrochemical demand, will loom large over both events, while concerns about LNG supplies ahead of the northern hemisphere winter are set to dominate talks at Gastech.
Hopes for a rapid recovery in the world's biggest importer of crude, and second largest buyer of liquefied natural gas (LNG), are fading fast amid elusive policy support, and its record oil inventories key factors in capping global oil prices and Asia's spot LNG prices.
To support oil prices, top exporter Saudi Arabia could extend voluntary output cuts for a fourth month in October, leading supply cuts from major producers' group OPEC+, a move that Russia's Deputy Prime Minister Alexander Novak said Moscow was also considering.
Despite this uncertainty, Amrita Sen, co-founder of consultancy Energy Aspects said, traders were largely bullish on crude prices but wary of a correction to refiners' profit margins after a recent rebound due to refinery outages and falling inventories.
"The single biggest question is around product cracks and when is it going to come off?" Sen added.
India and China, for the first time, became Russia's top oil clients after the Ukraine war led to sanctions and a reshuffling of global crude trade that has led to the use of currencies other than the U.S. dollar for payments including the Chinese yuan and United Arab Emirates dirham.
Russian oil exports have continued despite prices rising above price caps as the West is keen to maintain global supplies and keep prices down.
Meanwhile, U.S. sanctions on Venezuela look poised to ease, improving global supply while abundant and cheap Iranian oil heads for China.
"Heightened risk of geopolitical shocks is placing energy security as a priority for governments across the globe again," energy analyst Saul Kavonic said.
LNG buyers from China and Japan to Thailand and Bangladesh scurried to lock in supplies this year after Asia spot prices cooled from record levels, reviving long-term deals as countries prioritise energy security.
But looming industrial action at Australian LNG plants has added fresh uncertainty as markets head into winter.
While the balance in global LNG markets remains delicate, the longer term demand outlook is uncertain as big importers including Japan and Europe aim to reduce the use of fossil fuels.

Top News - Agriculture

China snaps up Australian barley after tariffs lifted - traders

China has bought around 600,000 metric tons of Australian barley since Beijing lifted punishing duties on the grain earlier this month, traders said, underlining strong pent-up demand for the grain from its former top supplier.

China ended anti-dumping tariffs on Australian barley on Aug. 5, roughly three years after the 80.5% duties first hit exports once worth up to A$1.5 billion ($967 million) annually.

Importers have already snapped up 10 cargoes of old crop Australian barley for both malting and animal feed since the tariffs were lifted, said three European traders, and more deals are likely.

"These are big volumes and I expect more in coming months as the new crop in Australia approaches," said a European trader with direct knowledge of the deals. "There is not all that much available in Australia at this time of the season but China has been buying all it can."

Of the recent purchases, about two or three of the consignments are high-grade barley usually for malt and beer production, sold at around $325 per ton on a cost and freight basis (C&F), and seven to eight are animal feed barley bought at around $277-$280 per ton C&F, said two of the traders.

One cargo of malting barley is already on its way, Australia's agriculture minister said on Tuesday.

"China likes Australian barley and Chinese importers have been forced to pay over Australian prices for supplies from other origins," one of the traders added, referring to Australia's status as China's longterm supplier of consistently good quality grain.

Barley is expected to be a much sought after substitute to corn in animal feed, with heavy rain in China recently damaging some of the local crop and pushing up prices, while war in top supplier Ukraine has also disrupted supplies, say traders, analysts and feedmakers in China.

Another eight to 10 shipments of feed barley, which were bought from optional origins, have also been switched to Australia, the traders said. Under optional origin terms the seller usually has the freedom to select the country of origin.

One Singapore-based trader said Chinese importers had booked seven cargoes of 60,000 tons each in just the last six to 10 days.

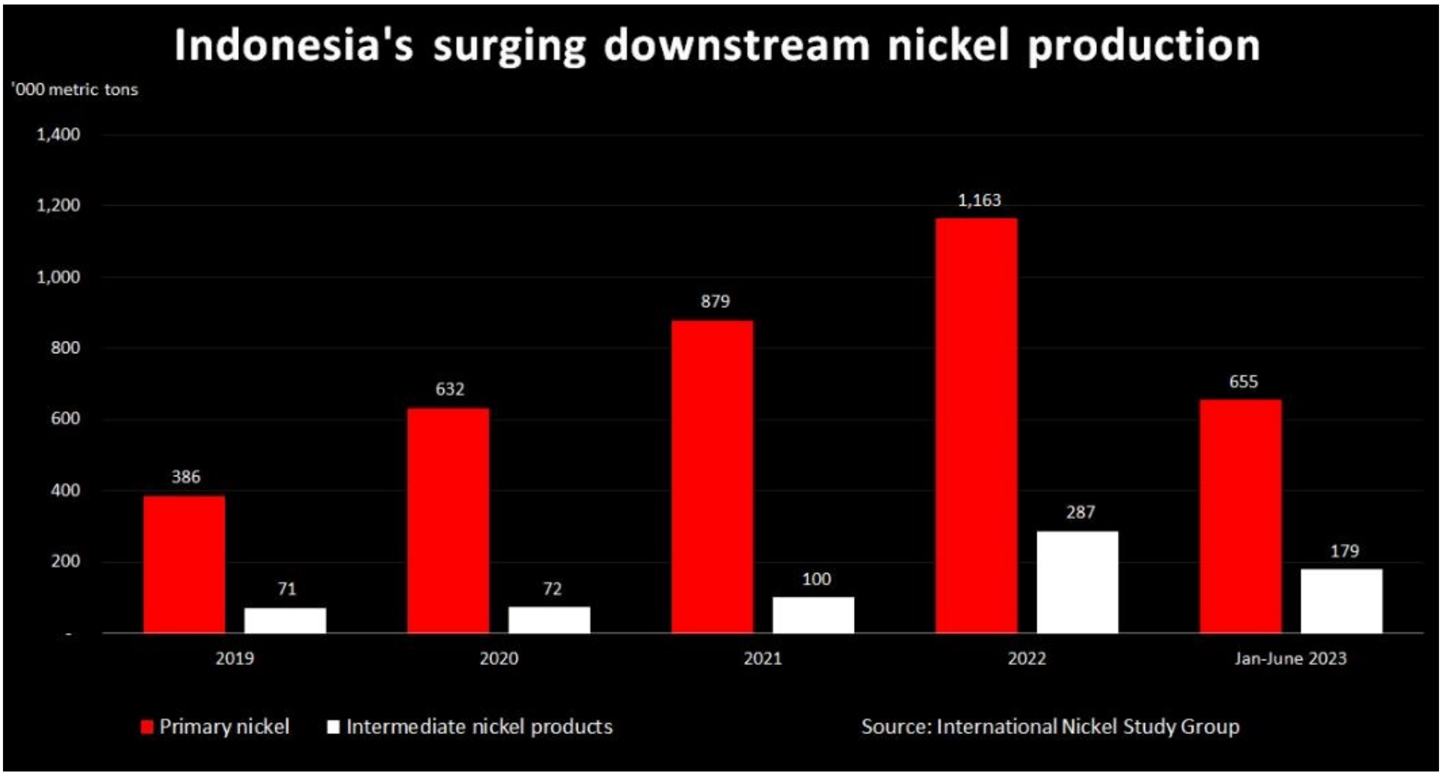
The European three traders said that in the next two to three months there should be around 20 shipments of Australian barley arriving in China.

"It's a quick return to old times in my view and Chinese demand is continuing," said the first trader.

"We expect to see China buying Australian barley all the way through 2024, they have a preference for Australian quality," the second trader added. Slow Australian feed wheat exports because of cheap South American corn means that scarce port loading slots are available in Australian ports, traders said.

Traders said the next stage would be Chinese purchases of new crop Australian barley, with Australian farmers currently unwilling sellers partly because of the uncertain Australian harvest outlook.

Chart of the Day



Scant deliveries seen against CBOT Sept corn, soy futures; wheat, oats eyed
Deliveries against Chicago Board of Trade (CBOT) September corn and soy futures should be light on Thursday, the first notice day, traders and analysts said on Wednesday, but soft cash markets could spur moderate deliveries against wheat and oat futures.
Traders predicted zero to 500 September corn deliveries, with most expecting none.
Traders expected zero to 200 September soybean deliveries and zero to 100 deliveries against soymeal and soyoil futures. CBOT rough rice deliveries were seen at zero to 100 contracts.
For wheat, most traders expected 200 to 1,000 deliveries against CBOT September futures, along with zero to 200 deliveries against K.C. hard red winter wheat futures.
For the thinly traded CBOT oats market, traders predicted zero to 400 deliveries against September futures, noting that 448 contracts were registered for delivery with the exchange. CBOT oats futures surged on Tuesday after Statistics Canada projected the smallest Canadian oat crop since 1991. But plentiful old-crop supplies and weak demand from feed makers have pressured cash oat markets, raising the prospect of deliveries, traders said.
CBOT data showed that no corn, soybean or soymeal futures contracts were registered for delivery as of Tuesday night, but commercial grain companies have until 4 p.m. CDT (2100 GMT) Wednesday to register additional contracts.
Registrations included 67 lots of soyoil, 1,368 for CBOT wheat and 147 for K.C. wheat. Traders closely monitor deliveries. A large number of deliveries tends to pressure the price of a nearby futures contract, while a small number would tend to support prices. During a contract's delivery period, which lasts two to three weeks, the futures market acts like a cash market. Companies holding short positions in September futures can issue intentions to deliver the physical commodity.
Traders holding the oldest-dated longs must accept delivery.

Top News - Metals

Nippon Steel expects Asia's steel margins to remain weak – executive
Nippon Steel Corp, Japan's top steelmaker, expects profit margins on steel sales in Asia will remain weak through March because of sluggish demand in the world's top consumer China and in the region, a senior executive said.
But the world's fourth-biggest steelmaker is still on track to achieve a record annual business profit excluding one-off items in the 2023/24 fiscal year, driven by stronger earnings from high-end products and improved marginal profit following a series of restructurings, Executive Vice President Takahiro Mori said.
"China's National Development and Reform Commission is telling local steelmakers not to raise production to keep steel output in line with last year's level, but in reality, the effect is not readily visible," Mori told Reuters in an interview this week.
"Given the current economic situation in China which is fairly bad, it's a bit difficult to imagine that spreads will widen in Asia," he said, referring to the profit margin from steel sales.
Beijing wants to curb steel production to tackle climate change, but the economy is so weak that it may not be able to force the mills to slash output because of concerns over the impact to employment, Mori said.
A surge in China's steel exports is unlikely, but their excess steel will continue to "seep into" Asia, he said.
Asian steel prices have recovered from this year's lows in May, but remained under pressure in recent months amid the patchy economic recovery in China.
Early this month, Nippon Steel raised its full-year net profit forecast by 8% on falling prices of raw materials, and boosted its estimate of business profit, excluding one-off items, by 5% to a record 840 billion yen ($5.8 billion).
"If we can increase our (steel) shipment by 1 million tonnes, it would lift our business profit by 30-50 billion yen," he said.
The company now assumes an annual steel shipment of 32 million tonnes this year.

TECK DEAL
Nippon Steel is still in talks with Teck Resources as it remains eager to take a stake in Teck's high-grade coking coal unit Elk Valley Resources (EVR), Mori said, adding it wants to settle the deal by the end of the year.
"We want to make the unit our equity-method affiliate, so our investment will not be less than 15%, but will not be as big as 30% or 40%," he said, without elaborating.
Nippon Steel said in February it will spend around 1.15 billion Canadian dollars ($848 million) to buy a 10% stake in EVR, with a right to raise its stake to maximum 17.5%.
But the deal fell through as Teck has since received several proposals for its steelmaking coal business, including from Glencore.
Glencore in June offered to buy Teck's coal business as a standalone unit, after the Canadian miner twice rebuffed its $22.5 billon offer to combine the two companies.

Indonesian nickel smelters turn to Philippines for ore as local supply tightens
Nickel smelters in top producer Indonesia are making rare purchases of ore from the Philippines to ease tight supplies, people familiar with the matter said, upending trade flows of the raw material and pushing up costs across the supply chain.
Jakarta recently delayed the issuing of mining quotas and suspended operations at a key site of state miner Aneka Tambang (Antam) after an investigation into corrupt practices in issuing mining allowances.
While mining at other sites continues and Indonesia, which accounts for half of global mined supply, has said there is no shortage of ore, prices have risen about 8% this week, following a 10% surge a week earlier, local buyers say.
Some firms are now buying ore from neighbouring Philippines, the world's No. 2 supplier, in the event that

new mining quotas are further delayed, said three smelter managers, two nickel traders and a Chinese analyst.
All declined to be identified because they were not permitted to disclose the trade information publicly.
"(We) started imports from this month. It is economical," said an official at a major smelter in Indonesia.
The person did not specify how much the smelter is buying but said the purchases are of low-grade limonite ore.
Indonesian miners will prioritise high-grade ore for their limited production quotas, the person added.
Indonesia imported 53,864 metric tons of nickel ore in the first half of 2023, up from 22,503 tons for all of 2022, Indonesian trade data showed.
But imports from the Philippines only started in May, and all arrived at Morowali port in a huge nickel processing park run partly by Chinese nickel giant Tsingshan Group, the Indonesian data showed.
Tsingshan did not respond to a call and email seeking comment. Volumes in the first half from the Philippines were less than 1,000 tons in nickel content compared to Indonesia's 1.6 million tons mined last year, data from the Indonesian government and the International Nickel Study Group (INSG) showed.
"The ore from the Philippines is generally lower grade than Indonesian material which will push operating costs higher due to lower production from same tonnage of ore," said Wood Mackenzie analyst Andrew Mitchell.
"But the ore is cheaper by comparison with domestic ore currently and so this will offset some of the rising costs," Mitchell said. Indonesia exported much of its ore before a 2020 ban halted all shipments and attracted billions of dollars worth of investment in nickel smelting, mostly from Chinese companies.
Imports from the Philippines could rise to 100,000 tons for July and August combined because of the supply tightness, according to Chinese consultancy Mysteel.
The Philippines mined 360,000 tons of nickel in ore in 2022, or 11% of global supplies, according to INSG.
Rising demand for ore from the Philippines is also pushing up prices in China, as buyers stock up due to tighter Indonesian supplies and ahead of the rainy season in the Philippines starting in October, said a Chinese trader.
Philippines 1.3% grade ore landed at China's Lianyun port surged 20.6% in the past month to $41 a ton, the highest since March, Mysteel data showed.

MARKET MONITOR as of 06:30 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$81.67 / bbl	0.05%	1.76%
NYMEX RBOB Gasoline	$2.58 / gallon	0.42%	4.01%
ICE Gas Oil	$899.25 / tonne	0.47%	-2.36%
NYMEX Natural Gas	$2.79 / mmBtu	-0.32%	-37.72%
Spot Gold	$1,944.13 / ounce	0.10%	6.56%
TRPC coal API 2 / Dec, 23	$126.5 / tonne	-0.78%	-31.53%
Carbon ECX EUA / Dec, 23	€86.09 / tonne	1.56%	2.52%
Dutch gas day-ahead (Pre. close)	€36.50 / Mwh	3.69%	-51.70%
CBOT Corn	$4.82 / bushel	0.16%	-28.98%
CBOT Wheat	$6.04 / bushel	-0.58%	-24.01%
Malaysia Palm Oil (3M)	RM4,010 / tonne	2.04%	-3.93%
Index (Total Return)	**Close 30 Aug**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	315.48	0.50%	4.70%
Rogers International	27.91	-0.55%	-2.65%
U.S. Stocks - Dow	34,890.24	0.11%	5.26%
U.S. Dollar Index	103.16	-0.36%	-0.35%
U.S. Bond Index (DJ)	405.87	0.02%	3.40%

Top News - Carbon & Power

US LNG projects win higher processing fees as interest rates climb

Long-term buyers of U.S. liquefied natural gas (LNG) are willingly agreeing to higher liquefaction fees at newer export projects, according to analysts and developers familiar with the matter.

The U.S. emerged in 2022 as the world's second largest LNG exporter on plentiful supplies of natural gas and relatively low processing costs per metric ton of LNG. But rising interest rates and higher construction costs have pushed up liquefaction fees, also known as tolling fees.

"We would naturally expect increased costs of project development, due to higher interest rates or other factors, to have a corresponding impact on liquefaction fees," said Lyle Hanna, a vice president at Commonwealth LNG, one of several U.S. LNG export projects working toward financial approvals.

Since Russia's invasion of Ukraine last year, the Dutch Title Transfer Facility (TTF) price has been much higher and is unlikely to return to the pre-invasion price levels, said Jason Bennett, a partner at law firm Baker Botts who negotiates LNG contracts.

Bennett said the willingness by long-term customers to pay higher tolling fees and ultimately higher prices for U.S. LNG was because newer projects are still providing very good margins due to the low gas prices at the Henry Hub, the main trading point for U.S. natural gas futures.

"U.S. LNG remains the best source of low cost LNG in the world...If the price used to be $2.25 (per million British thermal units) and it's $2.75 now, ok, but it's still the cheapest price of LNG anyway," said Bennett.

The most recently approved project - NextDecade Rio Grande LNG - increased its liquefaction fee as project costs rose, said Jason Feer, global head of business intelligence at LNG shipping and brokering firm Poten & Partners.

"NextDecade went back to their offtakers and sought an adjustment of their contract levels and our understanding is most of them agreed," Feer told Reuters.

NextDecade did not reply to questions about its processing fees. However, in a July 20 filing with the Department of Fossil Energy and Carbon Management, NextDecade revealed amendments to its contracts with all its long-term customers except France's TotalEnergies and Japanese trading house Itochu.

"The offtakers agreed because the project was very far advanced and was ready to go to FID (financial investment decision) and I think some of those contracts were very low-priced by current standards," Feer said.

The largest U.S. LNG exporter Cheniere Energy has cut its project financing costs by funding its newest Stage 3 expansion project from its balance sheet.

"Increasing our own equity in our projects and thereby reducing the level of debt required us to fund our expansions and is a competitive advantage," the company said.

Other developers are turning to increased equity investment in new projects to reduce the impact of higher interest rates on finance costs, said Poten's Feer.

COLUMN-Prospect of strong El Niño weighs on U.S. gas prices: Kemp

Rapidly forming El Niño conditions over the central and eastern Pacific Ocean have increased the probability of a strong episode this winter that would likely raise temperatures and cut gas consumption in the United States.

Sea surface temperatures in the most critical region of the ocean have warmed rapidly and have been almost +1.3°C above the long-term seasonal average so far in August having started the year -0.7°C below average in January.

The speed and strength of the warming has significantly increased the probability El Niño will prevail this winter and that it could be a strong rather than a weak one.

In its latest outlook, published on August 28, the U.S. Climate Prediction Centre put the probability of El Niño occurring between December and February at more than 95% and says most models show it will be strong.

El Niño is characterised by sea surface temperatures persistently +0.5°C or more above average and a strong episode occurs when temperatures are persistently +1.5°C or more above average.

The strength of El Niño matters because a weak or moderate episode is likely to be dominated by other factors influencing the weather and have little or no observable impact on temperatures and heating demand.

But a strong El Niño tends to produce a significant and observable impact on weather patterns, lowering gas consumption and prices.

A strong El Niño is generally associated with warmer-than-average winter temperatures across the United States, especially in the northern tier of states stretching from Washington through Illinois to Maine.

Since 1950, there have been six strong El Niño episodes during the northern hemisphere winter (1957/58, 1965/66, 1982/83, 1991/92, 1997/98 and 2015/16) and one borderline case (2009/10).

Since 1973, during winters with a strong episode, the number of U.S. heating degree days was 7% lower on average compared with years without (or 10% lower if the borderline case is excluded).

The impact is only observable for strong episodes - there was no significant difference in heating degree days between all El Niño years and all non-El Niño years.

So the outlook for gas, electricity and heating oil consumption and prices depends critically on the strength of the episode that is currently developing.

Winter is still three months or more in the future and the progression of El Niño conditions is subject to some uncertainty.

But there is a strong correlation between sea surface temperatures in August and those prevailing subsequently between December and February.

Sea surface temperatures have only been this far above the trend-adjusted seasonal average in August six times in the last 70 years (in 1957, 1965, 1972, 1987, 1997 and 2015).

On four of those six occasions, strong El Niño conditions prevailed the following winter (1957/58, 1987/88, 1997/98 and 2015/16).

Conversely, the seven strong winter El Niño's since 1950 have been preceded on average by sea surface temperatures +1.25°C above normal the previous August. Current sea surface temperatures are already slightly above that threshold.
It is worth repeating that El Niño is not the only influence on winter temperatures in the United States or even the dominant one.
But a strong El Niño would make warmer-than-average temperatures more likely depressing energy consumption and prices.
The rapid development of a strong El Niño helps explain why U.S. gas prices remain low in real terms despite the recent depletion of working gas inventories.
Traders have started to anticipate a strong El Niño will reduce gas consumption for heating and power generation this winter.

Top News - Dry Freight

Egypt's GASC buys 240,000 tons of wheat in tender
Egypt's state grains buyer, the General Authority for Supply Commodities (GASC), said on Wednesday it bought 240,000 metric tons of wheat in an international tender.
The purchase comprised 120,000 tons of French wheat and 120,000 tons of Romanian wheat, it added.
Traders gave the following breakdown of the purchase, in dollars per ton.

Romanian, French wheat offered lowest in Egyptian tender –traders
The lowest free-on-board (FOB) offer presented at an Egyptian state purchasing tender for wheat on Wednesday was $259.42 per metric ton for 60,000 tons of French wheat, traders said.
The lowest offer when shipping cost is included was $275.75 per metric ton for 60,000 tons of Romanian wheat on a cost and freight basis, traders added.
The offer was presented by Soufflet.
Egypt's state grains buyer, the General Authority for Supply Commodities (GASC), is seeking wheat in an international tender for shipment Oct. 5-20 and/or between Oct.25 and Nov.10 and/or Nov. 15-30
GASC asked suppliers to submit FOB offers with payment to be made at sight using funding from the International Islamic Trade Finance Corporation (ITFC).
Traders told Reuters that Russia's unofficial cap on prices, believed to be about $270 a ton, has reduced the competitiveness of Russian wheat in the tender.
“It again looks like the Russian government’s unofficial minimum export price has kept Russian price offers high and allowed France to get a look in,” one German trader said.
"It is highly unusual for a series of trading houses to offer exactly the same FOB price in GASC's tenders."
Russia has never officially confirmed its minimum export price but is said by traders to have been imposing it to prevent Russian domestic wheat prices from rising.

Picture of the Day

A seagull stands on a lamp post during a full moon known as the 'Blue Moon' in Cape Town, South Africa, August 30. REUTERS/Esa Alexander

(Inside Commodities is compiled by Sreshtha Uniyal in Bengaluru)

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

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