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Top News - Oil

Cushing oil hub's low levels spur quality, operational, price worries

U.S. crude stockpiles at the key Cushing, Oklahoma, storage hub are at their lowest in 14 months due to strong refining and export demand, prompting concerns about the quality of the remaining oil and the potential to fall below minimum operating levels, traders and analysts said.

Further drawdowns at Cushing, the delivery point for U.S. crude futures, could also provide new upward pressure on oil markets as it would compound supply tightness stemming from OPEC+ supply cuts. Brent crude LCOc1 was already trading near $94 a barrel on Tuesday on strong global demand, while West Texas Intermediate crude futures (WTI) traded over $90.

"Cushing inventory levels that are flirting near historical lows are driving WTI prices higher in an already tight market," said Rohit Rathod, market analyst at energy researcher Vortexa.

Cushing is strategically located to pull in barrels from top U.S. shale fields and Canada, while its hundreds of tanks are tied to pipelines that supply U.S. mid-continent and southern refineries and funnel oil to Gulf Coast export ports.

Since hitting a two-year high in June of over 43 million barrels, Cushing's levels have tumbled to just under 23 million barrels by Sept. 15, the lowest since July 2022, according to government data.

Analysts expect as much as a 1 million-barrel draw in the week to Sept. 22, based on drone monitoring. That would be the majority of an expected 1.7 million-barrel draw in total U.S. crude stocks, according to a Reuters poll.

Tank storage of below 20 million barrels, or between 10% and 20% of Cushing's over 98 million barrels of capacity, is considered close to operational low, say traders. Below those levels the oil is difficult to remove.

"If you let the crude (level) drop too low, the crude can get sludgy and you can't get it out. What does come out - you won't be able to use," said Carl Larry, a sales director at energy consultants Wood Mackenzie.

Water and sediments often settle at the base of storage tanks, making the crude oil at the bottom unable to meet quality standards for refiners or exporters.

Some tanks have outlets at the bottom that can be used to empty oil and sludge completely, while others do not and therefore the oil at the base cannot be removed completely. At lower levels, it becomes more expensive for companies to get the remaining crude out of the tanks.

Roofs of storage tanks also float on the oil, preventing vapors from building up or escaping into the atmosphere. When the legs of these roofs touch the base, it creates a gap between the oil and the roof, causing combustible vapors to form.

CAN STOCKS REBUILD?

Strong refining demand, rising crude exports and future prices that have been weaker than spot prices have drained Cushing's tank farms. High interest rates also have pushed up the costs for storing oil, encouraging outflows.

Some analysts reckon refineries' seasonal autumn maintenance will help build crude stocks a bit, but others warn that refiners are likely to exit maintenance quickly and run full bore to keep up with high fuel demand.

Planned maintenance is going to peak in mid-October and cut refinery crude intake by some 1.8 million barrels per day, greater than last year's fall maintenance peak of 1.5 million bpd, said Hillary Stevenson, a senior director at IIR Energy.

Typically, when Cushing inventories drop, relative prices at the hub increase to attract barrels from the Permian and limit outflows to the Gulf Coast, said Lee Williams, a senior analyst at Wood Mackenzie.

Alternatively, pipeline or storage terminal operators may limit outflows for operational purposes as inventories near the floor, said Williams.

In 2014, the last time Cushing levels fell below 20 million barrels, any major consequences were avoided as stocks quickly rebuilt due to prices rising at the hub. Also, the U.S. was not a crude oil exporter then due to a 40-year export ban which was only lifted in 2015.

Now with high export demand, market participants worry that draws at Cushing will continue.

"The world is hungry for crude," said Ernie Barsamian, CEO of the Tank Tiger, a U.S. terminal storage clearinghouse. "Any incremental production will get exported."

China may boost Oct fuel exports on robust margins, flight recovery

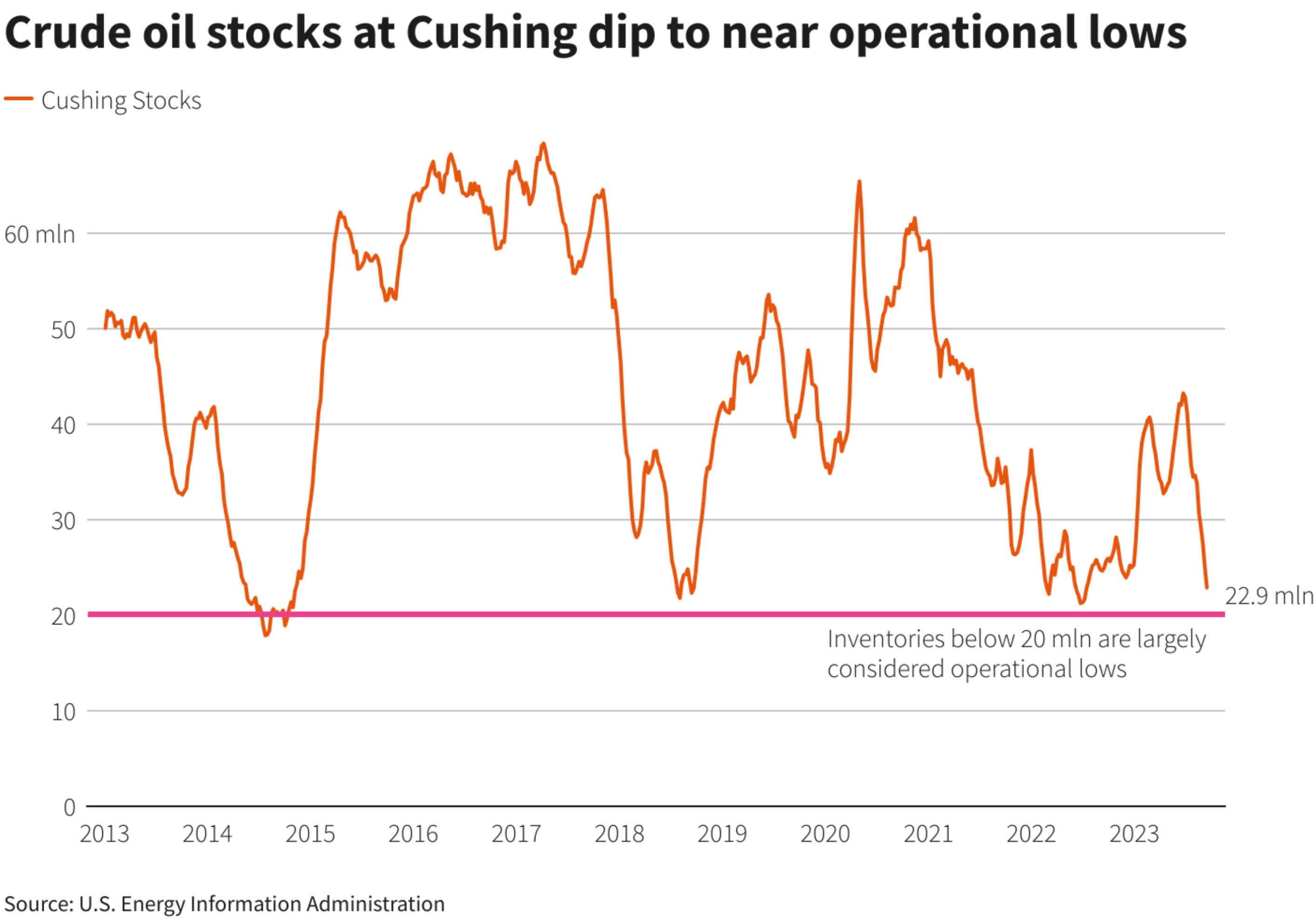
China's oil products exports are set to rise in October as state-owned refiners capitalise on lucrative margins and some western demand, while international flights recover, industry sources and analysts said.

The boost in Chinese exports follows Beijing issuing a third batch of fuel export quotas earlier this month. The world's second-largest oil refiner is importing lower-priced sanctioned oil from Russia, Iran and Venezuela and maximising output to ramp up exports that have helped ease tight gasoline and diesel supplies globally and capped prices.

China's gasoline, diesel and jet fuel exports may be 4.02

million metric tons in October, according to the median of estimates from consultancies and trade sources.
That would be up from data from shiptracking firm Kpler showing exports in September were 2.38 million tons and LSEG loading data showing exports were 3.395 million tons. However, that data does not include jet fuel loaded onto outbound Chinese flights that the country's customs agency includes as exports.
"Higher October export plans suggest refineries are not worried about using up existing quotas and they are expecting additional export quotas," said Energy Aspects analyst Sun Jianan, referring to a possible fourth allocation for 2023.
Among the products, jet fuel exports may be 1.63 million tons, according to the median of estimates from consultancies Longzhong, JLC and FGE.
That would be up from an estimate of 1.6 million tons for September that includes the fuel loaded onto outbound flights.
Exports will rise along with international flight capacity which could reach around 55% of 2019 levels during the October holiday season, FGE analysts said in a note.
China counts the refuelling requirements from international flights from bonded warehouses as jet fuel exports.
September's international flight capacities are now 54% of the levels in the same month of 2019, up from 52% in August, aviation data analytics firm OAG said, adding that the largest monthly capacity increase was on the China-U.S. route.

Chart of the Day



Top News - Agriculture

Brazil sugar output up 8.5% in early September, says UNICA
Brazil's center-south sugar production rose 8.54% in the first half of September when compared with a year earlier, totaling 3.12 million metric tons, data from industry group UNICA showed on Tuesday.
UNICA said in a report that 41.76 million tons of sugar-cane were crushed in the period, up 5.35% from a year ago. In recent fortnights, output from Brazil's main sugar-cane belt has been rising significantly on a yearly basis, including a record in late July, as the sector benefits from higher agricultural yields.

In August, for example, yields were up 23.2% from the previous year, said UNICA, which sees harvesting efforts being extended into the region's wet period this year because of that.
"That could impact the mills' processing capacity in the last quarter of 2023," the group said, noting the El Nino climate pattern could contribute to heavier showers in Brazil's center-south.
UNICA added that total ethanol production in the region totaled 2.12 billion liters in the first half of September, a 0.44% decrease from a year earlier. The data also considers biofuel made from corn.

East European countries want more EU checks on Ukraine grain corridors
Countries from the EU's eastern wing on Tuesday called on the European Commission to boost checks on solidarity lanes for Ukrainian grains and introduce a deposit system for exports.
Ukraine has been in dispute with neighbouring allies over restrictions on its grain, which it has been forced to send overland since Russia's invasion last year.
The EU created alternative land routes, so-called Solidarity Lanes, for Ukraine to use to export its grains and oilseeds, but its neighbours have argued that cheap Ukrainian agricultural goods meant to be in transit get sold locally, harming their own farmers.Hungary, Poland and Slovakia imposed national restrictions on Ukrainian grain imports this month after the European Commission decided not to extend a ban on imports into those countries and fellow bloc members Bulgaria and Romania.
"We prefer finding a common Union-wide solution," Czech Agriculture Minister Marek Vyborny said on Tuesday after hosting a meeting with counterparts from Hungary, Poland and Slovakia.
"We together are calling on the European Commission to take an active approach to controls on the effectiveness of the corridors of solidarity."
Russia backed out of a U.N.-brokered Black Sea grain deal in July this year that had allowed safe passage for the cargo ships, putting more stress on shipments.
Vyborny said the four countries also agreed that the Commission should also consider a deposit scheme for exports.
The deposit would be required from traders exporting from Ukraine and would be returned when it was determined that the grain had left Europe for its final destinations.

Top News - Metals

Chile's Codelco to meet obligations as financials deteriorate -JPMorgan
Chile's Codelco, the world's largest copper producer, will meet its financial obligations despite headwinds from a series of operational problems and from high levels of debt and investments, JPMorgan said on Tuesday.
Codelco's copper production fell in 2022 to its lowest level in 25 years, exacerbated in part by delays to key projects for extending the lives of its mines.
The company cut its production estimate for this year to between 1.31 billion and 1.35 billion metric tons of the red metal.
"We believe Codelco will be able to meet all of its financial obligations despite the elevated capex budget and operational issues it has faced that has led to reduced production and increased unit costs," JPMorgan analyst Ian Snyder said in a note. JPMorgan estimates that Chile's government will likely provide support to Codelco, which gives all its profits to the state, through direct capital injections or by a continued reduction in upstream dividends so that the company can make investments, if necessary.
"That said, we do expect credit metrics to continue to deteriorate as the company will likely issue additional debt to help fund a portion of the capex budget," the note added.
In August, Chile's Center for Copper and Mining Studies (CESCO) said in a report that Codelco was at risk of insolvency due to rising costs and a gzrowing debt pile stemming from projects that missed output targets.
Earlier this month, Codelco's Chairman Maximo Pacheco told lawmakers that the company was "financially solid" and described CESCO's forecast as "nonsense."

Brazilian steelmakers say Chinese, Russian imports 'flooding' market
Cheaper steel from Russia and China is "flooding" Brazil's market, the chairman of Brazil's Aco industry group said on Tuesday, though a top executive said Chinese imports were less of a problem than a decade ago.
Jefferson de Paula, who also heads the Brazilian arm of No. 2 global steelmaker ArcelorMittal, said during an industry event that "Chinese and Russian companies are flooding the market with steel products at subsidized prices."Meanwhile, the country's steel mills have an idle capacity of around 40%, he said.
Brazil's steel imports this year through August jumped 49.5% compared with the same period a year earlier, according to the industry group's latest data, hitting 3.18 million metric tons.
At 61%, the bulk comes from China.
"I don't see China as being as serious a problem as it was 10 years ago," ArcelorMittal CEO Aditya Mittal said while attending the conference virtually, noting countries should nevertheless "ensure fair trade."
A series of trade actions against China as well as its focus on controlling its emissions should curtail the growth of its steel production capacity, he added, saying the Chinese government "is not necessarily supporting exports" of steel. Global steel demand should, according to ArcelorMittal, reach 2.5 billion tons by 2050 from 1.9 billion currently.

Top News - Carbon & Power

UK and Germany sign hydrogen energy collaboration agreement

Britain said on Tuesday it would work closely with Germany to underpin the international trade in hydrogen under a new partnership, which the government hopes will support its net zero target and bolster energy security.
The countries will also collaborate to speed up the role of low-carbon hydrogen in their energy mix, the British statement added.
"This agreement will underpin the development of this new fuel not just for our respective countries but also for an international trade that could be transformative in our work towards achieving net zero emissions by 2050," Martin Callanan, a junior minister in the government's energy department, said. "It is through these partnerships that we can move away from expensive fossil fuels – and in doing so boost our energy security."
Industry and policy-makers are increasingly looking to hydrogen to lower the environmental impact of sectors that have been the hardest to decarbonise and reduce the use of gas, but the investment required and the technical challenges are high.
In April 2022 Britain pledged to double its hydrogen production to up to 10 gigawatts (GW) by 2030, with at least half of it from electrolytic hydrogen.
To that end, the government launched a 240 million pound net zero hydrogen fund to support commercial deployment of new low carbon hydrogen production projects through the 2020s.
Berlin is expected to provide state aid for around 2.5 GW of electrolysis projects this year and the German government has said it would earmark 700 million euros for hydrogen research to optimise production methods.
Germany has a domestic electrolysis capacity target of at least 10 GW by 2030.

COLUMN- Asia's coal sector sees long, prosperous life despite energy transition: Russell

Asia's coal sector has gone from thinking they are in terminal decline as the world shifts to a net-zero carbon future to seeing themselves as being a part of the energy mix for decades to come, while raking in profits.
The bullish narrative was on full display at the industry's biggest gathering, the Coaltrans Asia conference held this week on the Indonesian resort island of Bali.
What has changed for the coal industry is that they no longer believe that renewable energies can be deployed fast enough, cheaply enough and at sufficient scale to push fossil fuels out of Asia's energy mix.
"The reality is that coal demand will continue to increase,"

MARKET MONITOR as of 06:23 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$91.39 / bbl	1.11%	13.87%
NYMEX RBOB Gasoline	$2.54 / gallon	1.01%	2.57%
ICE Gas Oil	$970.75 / tonne	1.70%	5.40%
NYMEX Natural Gas	$2.67 / mmBtu	0.60%	-40.29%
Spot Gold	$1,896.38 / ounce	-0.22%	3.95%
TRPC coal API 2 / Dec, 23	$130 / tonne	0.78%	-29.63%
Carbon ECX EUA / Dec, 23	€82.77 / tonne	-0.18%	-1.43%
Dutch gas day-ahead (Pre. close)	€39.90 / Mwh	-10.03%	-47.20%
CBOT Corn	$4.97 / bushel	0.51%	-26.70%
CBOT Wheat	$6.19 / bushel	0.41%	-22.85%
Malaysia Palm Oil (3M)	RM3,731 / tonne	1.06%	-10.61%
Index (Total Return)	**Close 26 Sep**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	320.78	-0.06%	6.45%
Rogers International	29.38	0.36%	2.49%
U.S. Stocks - Dow	33,618.88	-1.14%	1.42%
U.S. Dollar Index	106.23	0.22%	2.62%
U.S. Bond Index (DJ)	395.80	-0.19%	1.04%

Septian Hario Seto, Indonesia's deputy of investment at its Coordinating Ministry for Maritime and Investment Affairs, told the conference.
This was a common view, with delegates expressing scepticism over the pathways to net-zero emissions advocated by Western bodies such as the International Energy Agency.While thermal coal does see some threat from natural gas, the view of virtually every market participant, from miners to traders to utilities and government officials, was that coal remains the cheaper and more secure alternative.There is also the realisation that the energy transition means very different things in various regions and countries.
It could be argued that the lesson that most European countries took from the surge in fossil fuel prices and the concern over security in supply from Russia's invasion of Ukraine was that they would accelerate the move to renewable energies.
European nations may be able to afford to take such steps and commit billions of dollars to build wind, solar and storage solutions at an accelerated pace.
The lesson in Asia seems to be the exact opposite, with the main concern being the cost of energy.
To many Asian countries, it's simply too expensive to move rapidly to renewable energies, given the huge investments needed to re-shape electricity grids to cope with variable generation from wind and solar, as well as put in place the generation capability to back up the renewable supplies, such as gas-fired peaking plants, pumped hydro and battery storage.
While solar panels and wind turbines may be relatively cheap when compared to building a coal-fired power plant, the infrastructure needed to support the renewable energies isn't, and this is the main concern of Asian countries. There is also the view that Asia's energy demand will increase rapidly in the next few decades and meeting that will mean using all resources, including the vast deposits of coal in populous countries such as China, India and Indonesia.

ASIA'S PATH
The Asian model of moving to net-zero is likely to look quite different from what is being attempted in the developed world.
What they have in common is a shift to electrify as much as possible, from transport to industrial and residential heating and cooking. But Asia seems to be content to use coal-fired power to increase its electrification, working on the view that this is a better carbon outcome than continuing to use crude oil and gas.
The appeal of coal is that notwithstanding the current high-by-historical-standards prices, it's still considerably cheaper than crude oil and gas.
Geopolitics is also a factor, and Asian energy importers are becoming increasingly wary of the influence of the OPEC+ group, and are keen to move away from dependence on a fuel whose price can be manipulated by the producing nations.
China, India and Indonesia are currently building 89% of the coal-fired power plants under construction, according to data from the Global Energy Monitor.
While all three of these countries are also expanding renewable energies, the fact that they are boosting coal shows just how differently they view the energy transition.
The aim appears to be to increase the supply of electricity from all generation sources, electrify energy demand as much as possible and then over time gradually phase out coal-fired power and replace it with cleaner alternatives.
To Asian policymakers this makes more sense, as it allows them to increase the supply of electricity at a cheaper cost than rapidly shifting to renewables, while still being able to claim they are on the path to net-zero because they are moving away from oil and gas and can deploy renewables over time.
It's likely that these arguments will be rejected by climate scientists, environmentalists and the majority of developed nation policymakers.
But this just shows the emerging gulf between how the various players view the energy transition.
For the coal market in Asia what they now see is a pathway to staying in the mix.
They expect seaborne thermal coal demand to remain strong, not only from China and India, the world's two-largest importers, but also from other countries that are planning on keeping coal for decades to come, such as Vietnam and Bangladesh.

Top News - Dry Freight

Tunisia buys soft wheat and barley in tender - traders
Tunisia's state grains agency is believed to have purchased about 100,000 metric tons of soft wheat and 50,000 metric tons of animal feed barley to be sourced from optional origins in an international tender on Tuesday, European traders said.
The wheat was said to have been sold in four 25,000 ton consignments. Trading house Promising International sold three at estimated prices of $277.25 and $277.75 and $278.25 all per ton c&f, while Casillo sold one at $274.69 a ton c&f.
The barley was sold in two 25,000 ton consignments, both by Casillo with prices estimated at $219.69 and $224.49 a ton c&f.
Results of Tunisia's tenders reflect assessments from traders and further estimates of prices and volumes are still possible later.
Traders noted the absence of Russian trading houses in Tunisia's wheat tender, which had an unusually low participation of five trading companies.
“It looks like this is another sign that the Russian unofficial minimum export price is having an impact in markets,”

one trader said.
Russian wheat offers at a recent import tender by Egypt were all made at the same price. This highlighted what traders see as behind the scenes intervention by Russia's government to brake wheat exports and cool domestic flour prices by imposing a floor price for exports.
Tunisia's tender on Tuesday sought wheat for shipment between Oct. 5 and Nov. 15, depending on the origin the seller supplies.
The barley was sought for shipment between Oct. 5 and Nov. 5, also depending on origin supplied.
Tunisia has been regularly buying cereals in international markets in recent months after the country’s grain harvest plunged this year by 60% to 250,000 tonnes following drought. This created an unwelcome import burden on top of the country’s tense financial position.

Ship insurance facility set up for Ukraine grain exports, says broker Miller

A new marine insurance facility for Ukrainian grain exports using the country's sea corridor has been set up in conjunction with Ukraine's authorities, insurance broker Miller said on Tuesday.
Russia quit a U.N.-backed deal in July to enable exports from Ukraine to sail from three approved ports.
Since then, Kyiv has launched what it calls a new temporary humanitarian corridor in an effort to break Russia's de facto blockade. Two ships have sailed in the recent days from the Ukrainian port of Chornomorsk using the channel.
Securing insurance cover has been vital.
London-headquartered Miller said it had teamed up with British maritime technology company Clearwater Dynamics (CWD) to develop a war risks insurance facility for grains shipments via three ports including Chornomorsk as well as Odesa and Pivdennyi.
Miller declined to name the underwriters involved in the facility, which offered both cargo and hull insurance for a ship.
"This is a commercial facility and the underwriters involved will settle all losses," a Miller spokesperson said.
"The three main grain export ports are the areas to be covered. But onwards voyage outside the Black Sea can also be built into coverage," the spokesperson said, adding that the policy was waiting for formal enquiries.
The facility will use CWD’s technology to enable ship tracking and real time monitoring of a vessel in transit, in port and until it exits the high-risk area, Miller said.
Ukraine's farm ministry was not immediately available for comment.
Farm minister Mykola Solsky told Ukrainian TV on Tuesday that the first ships to leave "were very expensive", although the cost of freight had fallen.
"An insurance market for the greater Odesa area has already emerged. There is a trend," Solsky said.
Russia hit Ukrainian port infrastructure and grain storage facilities in an overnight drone strike on the grain exporting district of Izmail, Ukrainian officials said on Tuesday.

Picture of the Day

The first subsidy-free wind farm in the world, the Hollandse Kust Zuid with 139 wind turbines, is seen at sea near Ijmuiden, Netherlands, September 25. REUTERS/Piroschka van de Wouw

(Inside Commodities is compiled by Anjana J Nair in Bengaluru)

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