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Top News - Oil

Rising oil prices boost US drilling, producer costs rise -Dallas Fed

Oil and gas activity in three key energy producing U.S. states has been risingwith the latest jump in energy prices, according to a survey released on Wednesday, signaling a turn in producers' sentiment even as their costs have risen too.

The survey showed new optimism in the oil patch after a series of dour quarterly reports and rising costs for oilfield services.

Exploration is driving the increase, with the survey's index of business activity reaching 10.9 in the third quarter, from zero in the second, the Federal Reserve Bank of Dallas said.

The results of a mid-September poll of executives with 147 energy firms in Texas, Louisiana and New Mexico found that cost inflation remains a factor but rising oil prices may finally be encouraging more drilling.

"Capital discipline will be tested among operators if the price remains consistently over $90 per barrel," one of the survey respondents told bank pollsters.

U.S. oil futures on Wednesday were trading up more than $3 to $93.74 a barrel, the highest since July 2022.

The bank's index of oil and gas production activity climbed to 26.5 in the third quarter, from 8.0 in the second quarter. Its gas production index also rose to 15.4, from 2.1 the prior period.

More than half the executives surveyed said they expect oil consumption to be slightly to significantly higher in 2050 than it is today. Another third said they expect consumption to be slightly lower to significantly lower, and 15% expect consumption to remain the same.

NET ZERO CHALLENGES

Oil production is likely to increase due to global population growth despite efforts to get greenhouse gas emissions to net zero by 2050, said Kunal Patel, a senior business economist at the bank.

The poll, taken in mid-September at a time when U.S. oil futures were trading about $90 per barrel, had more than two-thirds of those polled projecting the year-end price of oil will be between $85 and $100 per barrel.

"We are very bullish on the price of oil. Shale production has flatlined, and OPEC is once again in the driver's seat," one executive told bank pollsters. "New field discoveries are not keeping up with the produced volumes. The lack of inexpensive energy in the future will curtail worldwide economic growth."

Oilfield costs rose for the 11th consecutive quarter, firms reported, with the bank's finding and development cost index up to 18.3 from 14.9. An oilfield service cost index slipped to 33.4 from 41.2.

SERVICE COSTS

"Lead times for major components from major manufacturers continue to increase year over year and compared with the past two quarters," another executive said. "Medical insurance cost for 2024 is approximately a 10 percent year-over-year increase. Vehicle, property and casualty insurance rates for 2024 are also increasing more than 10 percent," he added.

The expected increase in costs was more pronounced among smaller companies than larger exploration and production (E&P) companies because of larger companies are more able to pressure suppliers, said Patel.

The aggregate employment index declined to 5.5 in the third quarter from 13.1 in the second, but the single-digit reading indicates there was little change from the second quarter employment level, the bank said.

EXCLUSIVE- Shell CEO comes under pressure from within on renewables shift

Shell CEO Wael Sawan has come under pressure over his strategy from within the energy company after two employees issued a rare open letter urging him not to scale back investments in renewable energy, sparking an internal debate.

The open letter, posted earlier this month on Shell's internal web and seen by Reuters this week, comes after Sawan outlined at an investor day in June plans to slow investment in renewables and low-carbon business as part of a strategy to boost returns.

The company also split its low-carbon business and scrapped the role of global head of renewables, which was followed by the departure of the holder of that position Thomas Brostrom after less than two years in the role.

"For a long time, it has been Shell's ambition to be a leader in the energy transition. It is the reason we work here," said the letter which was addressed to Sawan and the Shell executive committee.

"The recent announcements at and after the capital markets day deeply concern us... We can only hope the optics of the CMD announcements are deceiving us and that Shell continues its path as a leader in the energy transition."

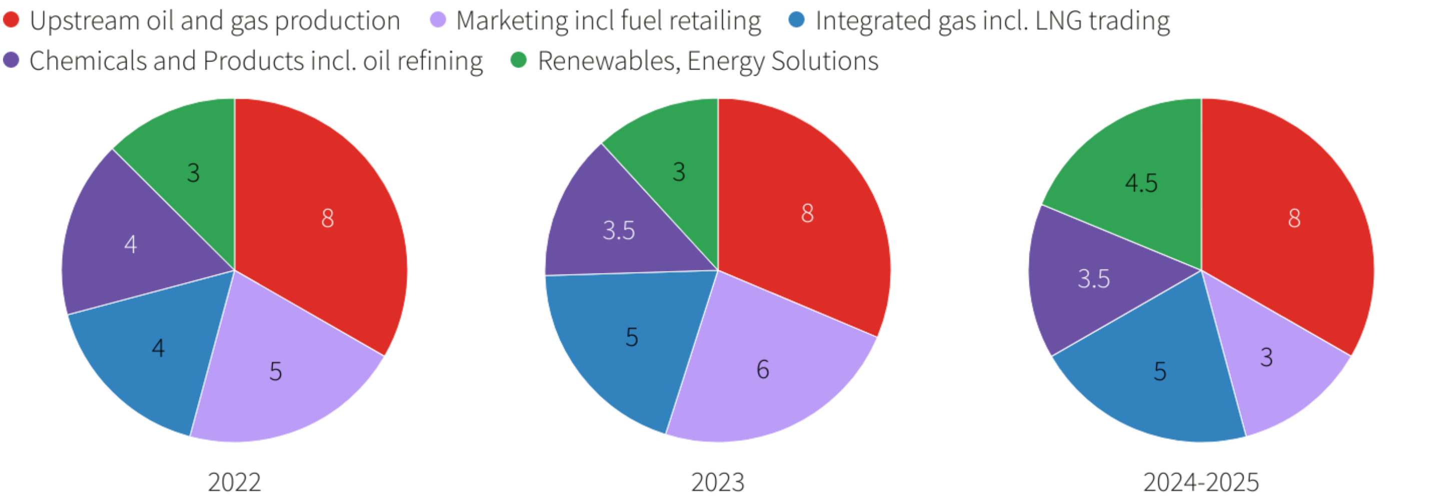
The letter was signed by Lisette de Heiden and Wouter Drinkwaard, who both work in Shell's low-carbon division. De Heiden and Drinkwaard did not respond to a request for comment. The letter received more than 80,000 views and 1,000 likes, and sparked a long exchange of comments on the open platform, including from Sawan, according to company sources.

Shell shares were up nearly 1% by 1508GMT.

NO EASY ANSWERS
"For an organisation at the crux of the energy transition, there are no easy answers and no shortage of dilemmas or challenge," Sawan wrote in his response.
"We might not always agree on the way forward, but I feel good about the role Shell is, and will continue, to play. I am proud of how we provide affordable and secure energy to people every day, while we work hard to provide lower-carbon solutions to our customers, as we transition over time to a net-zero emissions business."
Sawan, who took office in January, has focused on improving Shell's operational performance and profitability by leaning more heavily on oil and gas operations, biofuels and electric vehicle charging.
Shell has in recent months exited offshore wind projects in Ireland and France, sold its UK power retail business and said it was seeking to sell stakes in renewable projects in India. It is also weighing selling all or part of the Sonnen battery storage company it acquired in 2019, industry sources said.
Shell decline to comment on the Sonnen sale process.
A Shell spokesperson said: "We appreciate that our staff are engaged in and have passion for both the energy transition and Shell... Shell is playing a meaningful role in addressing the energy transition, and at our recent Capital Markets Day we set out those areas of the energy system of today and tomorrow where we are best placed to invest, compete and win."
Several senior Shell executives have left the low-carbon and renewables division since the strategy change.
Those include Oliver Bishop, who headed Shell's global hydrogen mobility business and who joined BP in September in the same role, Roberto Jimenez, who headed Shell's European onshore power, and Colin Crooks, senior vice president of renewables and energy solutions Europe, will leave at the end of the month, according to a company spokesperson.
Shell aims to be a net zero emissions company by 2050.

Chart of the Day

Shell's investment plans



Note: in $ billion/yr
Source: Shell

Top News - Agriculture

Ukraine grain corridor should not replace broader deal - UN trade chief
Ukraine's move to create a shipping channel for grain exports is a positive step for global food security, although efforts continue to reach a new agreement over a broader Black Sea corridor, the top U.N. trade official said on Wednesday.
Russia in July quit a U.N.-backed deal which had enabled exports from Ukraine to sail from three approved ports. Since then, Kyiv has launched what it calls a temporary humanitarian corridor in an effort to break Russia's de facto blockade. Two ships have sailed in recent days from the Ukrainian port of Chornomorsk using the channel, which hugs the Romanian and Bulgarian coasts.
"We see the alternatives that are being explored to export in a very positive light because the important thing is to get the grain to global markets," Rebeca Grynspan, who leads the implementation of the U.N. deal with Russia, told Reuters on the sidelines of a U.N. event in London.
Grynspan said while the new corridor that Ukraine is

trying to open is among “very important efforts”, she added that "the risks are higher".
"The only thing that will take the risk away and stabilise ... the situation is an agreement that will be backed by all partners," she said, adding she was unable to provide any timeframe for a deal.
Elsewhere Lloyd's of London is in talks with the U.N. over providing insurance cover for Ukrainian grain shipments if a new Black Sea corridor deal can be reached, its CEO John Neal told Reuters this month.
Grynspan said "options are being discussed", adding that "insurance is a big part of the solution".
Russia's Foreign Minister Sergei Lavrov said on Sept. 23 that while Moscow does not reject U.N. efforts to revive the Black Sea grain deal, a recent proposal by U.N. Secretary-General Antonio Guterres was unrealistic.
Grynspan said the U.N. did not agree with this assessment. "We are convinced that we put forward real solutions to the issues that Russia has raised. We want to have the possibility to still explain why we think that these are real solutions," she said.
Grynspan told Reuters in May that the U.N. was working with the African Export-Import Bank to create a platform to help process transactions for Russian exports of grain and fertilizer to Africa.
She said on Wednesday that even for Russian banks that had not been cut off from the SWIFT international payments system or had sanctions imposed, "due diligence is a problem".
"We are putting forward platforms and solutions for these problems - that are problems of procedure, risk aversion in the private sector that we need to solve."

US top sugar state Louisiana begins harvest expecting losses
Louisiana, the state that produced the largest amount of sugar in the United States last season, kicked off the harvest of the new crop expecting losses as drier-than-normal weather in the second half of this year hurt sugarcane development.
The Alma Mill in Lakeland, southeastern Louisiana, started operations Wednesday, and other mills in the state are expected to follow through next week, said Kenneth Gravois, sugarcane specialist at the Louisiana State University.
"Production is going to be off. Still hard to say to what extent," he said, adding that the state received below-average rains all along the cane development period.
The likely smaller production will worsen the supply situation in the U.S., where sugar prices are hovering around the all-time highs, and could lead to higher imports.
Gravois said that some areas will probably not be harvested with farmers abandoning them for the insurance. Soil moisture in Louisiana is currently at the lowest level for the last seven years, according to LSEG's Eikon Agriculture Weather Dashboard. It is way below the normal for the period.
There is forecast for rains around October 7, but since many areas are already ripe for harvest they would not change much the poor crop status.
The U.S. Department of Agriculture cut its projection for the state's sugar production on Sept. 12 by 18% due to the drought. Louisiana is seen losing the number one spot in production to Florida.
Sugar market information provider Sosland said in a weekly report that concerns about production pushed wholesale U.S. sugar prices higher.
Spot beet sugar was offered for 64 cents per pound, up to 2 cents from last week, while refined cane sugar was offered at 68 cents/lb.
Domestic sugar futures on ICE hit a contract high on Thursday at 44.15 cents/lb, the highest price since November.

Top News - Metals

Chile's Codelco expects copper output to start recovering in 2024
Codelco Chairman Maximo Pacheco said on Wednesday the Chilean state-run company's copper production is expected to start recovering next year as it overhauls its mining operations.
Copper output from Codelco's operations fell in 2022 to the lowest level in 25 years, exacerbated in part by delays to key projects for extending the life of its mines.
"Are we worried about the drop in production? Yes. Is production going to keep falling? No," Pacheco said at an event in Santiago.
He noted that 2023 would mark the "worst" year for Codelco over the next five years, with production "gradually" increasing until hitting 1.7 million metric tons in 2030. Codelco recently cut its production forecast for this year to between 1.31 million and 1.35 million tons.
Pacheco said Codelco's mine plan overhaul would address the factors holding back production, including plants that were being operated at a capacity "far superior" to the mineral grade being mined.
The delay in so-called structural projects under development - and their mounting costs - is one of Codelco's greatest challenges as it seeks to compensate for the drops in mineral grades and extend the useful life of its old deposits.
Pacheco said further delays would be "a mistake," and he again dismissed calls for the privatization of the company.
Codelco is in the process of adjusting its budget for the projects under development, Pacheco said, though there is no estimate yet of how much more they will cost as input costs have increased as well.
The company has some of the highest input costs for miners in Chile, which is the world's largest copper producer. Pacheco said the firm was looking for ways to become more competitive.

Mexico not able to cancel Ganfeng Lithium concessions, chamber says
Mexico will not be able under the law to cancel conces-

sions for China's Ganfeng Lithium in the government's bid to tighten control over its potentially lucrative lithium reserves, the president of Mexico's mining chamber said on Wednesday.
Lithium giant Ganfeng said in a late August filing that Mexico's mining authorities had issued a notice to its local subsidiaries indicating nine of its concessions had been canceled.
Last year, the Mexican government enacted a sweeping lithium nationalization aiming to ensure the country profits from surging demand for the ultra-light metal, coveted by rechargeable battery makers across the globe.
"I do not belief it is possible to cancel concessions under the law," said mining chamber head Jaime Gutierrez. Concessions granted before the lithium nationalization should not be altered, as the law is not retroactive, he added.
Mexico does not yet produce any lithium despite indications it could hold rich deposits of the metal.
One of the concessions canceled is for an open-pit project in the state of Sonora, the company said, containing an estimated 8.82 million metric tons of lithium carbonate equivalent.Mexico put Ganfeng's concessions under review and requested evidence that its local subsidiaries had complied with investment obligations from 2017 to 2021, the company said in the filing.
The evidence was submitted in May, but authorities still decided to cancel the concessions, Ganfeng added.
Mexico's economy ministry did not immediately reply to a request for comment on the canceled concessions.
Since he took office in late 2018, President Andres Manuel Lopez Obrador has refused to offer any new mining concessions, arguing that too many had been granted by previous governments.
Lopez Obrador last year created a national lithium company to kick off projects, whose head, Pablo Taddei, said it could partner up with private companies for developments as long as the government holds the majority stake. Mexico's proposed 2024 budget, currently being discussed by lawmakers, gives 9.8 million pesos ($552,352.29) to the company, an amount deemed "short" by Gutierrez.

MARKET MONITOR as of 06:25 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$94.41 / bbl	0.78%	17.63%
NYMEX RBOB Gasoline	$2.56 / gallon	0.50%	3.41%
ICE Gas Oil	$987.25 / tonne	1.65%	7.19%
NYMEX Natural Gas	$2.89 / mmBtu	4.70%	-35.33%
Spot Gold	$1,874.37 / ounce	-0.02%	2.74%
TRPC coal API 2 / Dec, 23	$128.8 / tonne	-0.92%	-30.28%
Carbon ECX EUA / Dec, 23	€81.90 / tonne	-0.47%	-2.47%
Dutch gas day-ahead (Pre. close)	€40.00 / Mwh	0.25%	-47.07%
CBOT Corn	$4.98 / bushel	0.00%	-26.51%
CBOT Wheat	$6.08 / bushel	0.08%	-23.97%
Malaysia Palm Oil (3M)	RM3,773 / tonne	2.19%	-9.61%
Index (Total Return)	**Close 27 Sep**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	323.91	0.98%	7.49%
Rogers International	29.65	0.90%	3.42%
U.S. Stocks - Dow	33,550.27	-0.20%	1.22%
U.S. Dollar Index	106.67	0.41%	3.04%
U.S. Bond Index (DJ)	393.90	-0.48%	0.85%

Top News - Carbon & Power

China moves to modernise power grid, but coal looks set to stay

China's plans to create a unified national power market should boost consumption of renewable power, analysts say, but the impact could be diluted by factors such as flexibility given to provinces in adopting the system and greater support for coal.

In the bid to reform a rigid and disjointed system that has contributed to severe power outages in recent years, the powerful state planner aims to set up a national power system by 2030.

That will merge six regional grids into a unified electricity market with spot trading that allows quicker response to supply and demand issues.

A system blueprint issued last week lays out the mechanisms for spot trading nationwide for the first time, as well as pricing determined by short-term supply and demand conditions.

"Power sector reform is critical in China's energy transition and ensuring energy security," said Xuewan Chen, an energy transition analyst at LSEG.

The cabinet has pledged to double down on such reforms as China looks also to spur a move to renewable power, since the world's largest producer of wind and solar power keeps adding new capacity but faces challenges in supplying it in time.

A nationwide spot market will allow discovery of electricity prices in real time, boosting renewable power consumption, Fitch Ratings analysts said in a note following the new rules.

Most power deals are governed by medium and long-term contracts, though a handful of province have trialled spot trading since 2019.

"Downward price pressure during the hours when renewable power output increases may guide coal- and gas-fired power generators to reduce production," the Fitch analysts said.

"Renewable power would also become more competitive due to its lower variable cost."

In theory, as the share of renewables in the power mix increases, coal-fired plants should shift from baseload operations to providing standby capacity during demand peaks.

But the new rules also propose a capacity compensation scheme for "reasonable returns" at thermal power plants, Fitch said.

For coal power plants, such payments may just entrench the fuel as a back-up source and reduce power trading between provinces, said Anders Hove of the China energy research programme at the Oxford Institute for Energy Studies.

China's economic planner, the National Development and Reform Commission (NDRC), did not respond to a Reuters request for comment on the risks analysts pointed out.

A capacity payment compensates power generators for standby capacity, regardless of how much energy they actually produce.

China is considering introducing capacity fees, charged to industrial and commercial power users, from the beginning of next year, the Bloomberg news agency said on Tuesday, citing a draft of the plan.

But the rules give provinces leeway in adoption "according to actual conditions", which could potentially slow the reforms, said Lauri Myllyvirta, lead analyst at the Centre for Research on Energy and Clean Air and Global Energy Monitor.

Local governments, often the owners of coal power plants and mines, may resist a spot market system that threatens use of thermal power.

"The owners of the excess coal power capacity that is currently protected by the inefficient electricity system have a major interest in opposing reforms," said Myllyvirta.

ANALYSIS-Wind power industry drifts off course

A perfect storm of supply chain delays, design flaws and higher costs in the offshore wind industry has put dozens of projects at risk of not being delivered in time for countries to meet climate goals, industry executives, investors and analysts said.

The race to reduce reliance on fossil fuels is putting pressure on manufacturers and supply chains to keep pace with demand for more clean energy, especially in the European Union which is finalising a legally binding goal to produce 42.5% of energy from renewables by 2030.

Up from 32% now, the new target would require 420 gigawatts (GW) of wind energy including 103 GW offshore, more than double current capacity of 205 GW of which just 17 GW is offshore, according to industry group WindEurope.

But so far this year, projects off Britain, the Netherlands and Norway have been delayed or shelved due to rising costs and supply chain constraints while Britain's renewable energy auction this month failed to attract any bids from offshore wind developers, also because of high industry costs.

"If this turns into a prolonged pause of projects then without a doubt a lot of the 2030 renewables goals will be under pressure," said Jon Wallace, an investment manager at Jupiter Asset Management.

Even before the EU agreed its new renewables target this year, companies including Orsted, Shell, Equinor, wind turbine manufacturer Siemens Gamesa and WindEurope had warned that the offshore wind industry was not big enough to deliver on climate targets. Supply chain disruptions which started during the global pandemic have been exacerbated by the Ukraine war while higher shipping rates, raw material costs, interest rates and inflation have dented profits for some wind developers.

Markus Krebber, CEO of Germany's RWE, posted on LinkedIn that a combination of issues, all coming at time when the offshore industry was expected to expand quickly, called into question the achievement of climate protection goals.

"We certainly see a big gap between the renewables and wind targets for 2030 and the path we are on right now. We are growing but nowhere near fast enough," said Ben Blackwell, CEO of the Global Wind Energy Council.

BIGGER AND BETTER?

Over the last two decades, the industry has grown fast and cut technology costs to be on a par or even cheaper than fossil fuels in some parts of the world. But the race to develop ever bigger and more efficient turbines may have been too hasty, some executives and analysts said.

Turbines have roughly doubled in size every decade with the largest ones operating in 2021 and 2022 coming with 110-metre blades and a capacity of 12 to 15 megawatts (MW). But the bigger they get the more susceptible they have become to faults, said Rob West, analyst at consultancy Thunder Said Energy.

"Physics inherently punishes larger turbines. Larger blades will inherently deflect more, which means they need stiffer spar caps, shear webs and more expensive materials. They will also weigh more which pushes more stress and strain through the blade, root and nacelle during each rotation," he said.

In June, Siemens Gamesa said quality problems at its two most recent onshore wind turbines would cost 1.6 billion euros ($1.7 billion) to fix.

Fraser McLachlan, chief executive of GCube Insurance, said the number of insurance claims from wind developers has fallen in the past year but the amounts and severity of claims has gone up significantly.

"It's like the iPhone. Everyone wants the next generation technology and equipment and the manufacturers have been trying to outdo each other and the result is you are not getting a sufficient amount of R&D invested in the technology," he said.

"Participation in the offshore wind market has become a risky business, not only for insurers, but also manufacturers, developers, and supplier companies – with some now facing a material risk to their survival," McLachlan said.

Siemens Gamesa Chief Executive Jochen Eickholt said its offshore business was facing separate issues to the onshore problems, including delays in construction of production sites, supply chain glitches and shortages of quality components.

"We became a victim of our past successes over the last years. The interest in our products was very high, and this resulted in increased number of orders in 2021 and 2022 and it now requires a ramp-up in almost all of our production facilities," he said in August when the company reported third-quarter results.

The world's leading turbine maker Vestas has also said it is struggling to deliver a backlog of orders and expects supply chain disruptions to continue this year.

'MAJOR MARKET FAILURE'

At the same time, governments have stepped up auction rounds and tenders for seabed licences. Bloomberg New Energy Finance said it expected more than 60 GW of offshore wind contracts and leases to be for grabs worldwide through the end of 2024.

But some wind developers said the electricity price on offer at auctions was too low for them to embark on new projects given the industry's problems with rising costs.

"This is coming through to the developers who are discussing prices of turbines, labour, project deployment, hiring ships and finance and that's flowing into how they are budgeting projects," said Wallace at Jupiter.

Britain aims to triple its offshore wind capacity to 50 GW by the end of this decade but the lack of bids from wind developers at its Sept. 8 auction could be a sign of things to come, some experts said.

"The ratio between risk and reward is out of line in the offshore wind market in many jurisdictions. You can see this from investors not showing up," the Global Wind Energy Council's Blackwell told Reuters.

"Governments can and should fix this issue quickly, otherwise we could see a major market failure and climate and economic goals will simply not be met," he said.

In some auctions, prices have become too high for traditional renewables utilities to compete with major oil and gas companies on the hunt for greener assets.

For example, BP and TotalEnergies won a German tender for 7 GWs of offshore wind after paying a record 12.6 billion euros for the leases. RWE and Denmark's Orsted dropped out of the auction due to concerns about the price.

"We participated in that auction, and we would have loved to win. However, bid prices reached levels where our return expectations would not be met even in very optimistic scenarios," said RWE's Krebber.

Such is the concern about the industry's problems, the European Commission said this month it will put forward a package of support measures.

European companies are also struggling across the Atlantic.

In recent months, developers including Orsted, Equinor, BP and Shell have sought to cancel or renegotiate power contracts for the first commercial-scale U.S. wind farms due to start operating between 2025 and 2028.

And a fleet of U.S. projects central to President Joe Biden's aim for 30 GW of offshore wind by 2030 may not advance unless his administration eases requirements for subsidies in the Inflation Reduction Act, project developers have said.

"The situation in U.S. offshore wind is severe," Orsted CEO Mads Nipper said last month.

Top News - Dry Freight

Egypt buys 170,000 tons of European wheat despite drop in Russian prices

Egypt's state grains buyer, the General Authority for Supply Commodities (GASC), said on Wednesday it had bought 170,000 metric tons of wheat in an international tender.

The purchase comprised 60,000 tons of Romanian wheat for Nov. 10-20 shipment and 110,000 tons of Romanian and Bulgarian wheat for Nov. 21-30 shipment, it said.

European wheat has continued its winning streak in Egyptian tenders as an unofficial price floor has weighed on Russian wheat's competitiveness.

Traders say the Russian government had been imposing an unofficial minimum export price of $270 a ton fob in international tenders to put the brake on exports and cool domestic flour prices.

This was illustrated by Russian wheat all offered at $270 a ton FOB in the first round of GASC’s tender, the same price offered for Russian wheat in a tender last week. But during negotiations with GASC in today’s tender, a series of participants dropped their prices for Russian wheat to below $270 a ton, with $260 a ton offered by several companies. Traders said Russian authorities had given unofficial approval for the price cut. However, Romanian and Bulgarian wheat were still offered at lower prices.

Indian miner NMDC's China exports hindered by logistics -source

India's NMDC is unable to export low-grade iron ore to China, the country's biggest iron ore customer, due to logistics issues, a source with direct knowledge of the matter told Reuters.

The miner did not immediately reply to a Reuters email seeking comments.

"There is a severe shortage of rakes to move the ore anywhere in the country which is affecting exports," the source said, declining to be identified as details of the challenges are not public.

China imports around 80% of India's overall shipments.

Indian producers of low-grade ores largely depend on foreign markets because most major domestic steel producers use high-grade iron ores.

Separately, NMDC is also on track to receive forest clearances for diamond mining in the central Indian state of Madhya Pradesh, the source said.

The mine produces around 10 carats of diamond per 100 tonnes of Kimberlite processed, according to details provided by the company's website.

Meanwhile, the company's joint venture with Australia's Hancock Prospecting Pty was yet to start lithium production, the source said.

Picture of the Day

French farmer harvests potatoes in Haynecourt, France, September 27. REUTERS/Pascal Rossignol

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

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