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## Top News - Oil

**ANALYSIS- OPEC+ could cushion Iran oil shock but not broader disruption**

OPEC has enough spare oil capacity to compensate for a full loss of Iranian supply if Israel knocks out that country's facilities but the producer group would struggle if Iran retaliates by hitting installations of its Gulf neighbours.

Iran fired hundreds of missiles at Israel on Tuesday in response to Israeli airstrikes and attacks. Israel's Prime Minister Benjamin Netanyahu said Iran made a big mistake and would pay for it, and Iran threatened a crushing response if Israel retaliated.

Israel's options include targeting Iranian oil production facilities among other strategic sites, U.S. news website Axios reported on Wednesday citing Israeli officials.

Iran is an OPEC member with production of around 3.2 million barrels per day or 3% of global output.

Iranian oil exports have climbed this year to near multi-year highs of 1.7 million bpd despite U.S. sanctions. Chinese refiners buy most of its supply. Beijing says it doesn't recognise unilateral U.S. sanctions.

"In theory, if we lost all Iranian production - which is not our base case - OPEC+ has enough spare capacity to make up for the shock," said Amrita Sen, co-founder of Energy Aspects. OPEC+, which includes OPEC and allies like Russia and Kazakhstan, has been cutting production in recent years to support prices amid weak global demand. So the group is sitting on millions of barrels of spare capacity.

Cuts by OPEC+ producers currently total 5.86 million bpd. Analysts estimated Saudi Arabia is able to raise output by 3 million bpd and the United Arab Emirates by 1.4 million.

OPEC+ met on Wednesday to discuss compliance with cuts. The group did not discuss the Israeli-Iranian conflict, OPEC+ sources said.

"The only thing mentioned about the geopolitical situation and the conflict was the hope for non-escalation," said an OPEC+ source familiar with the discussions.

While OPEC has enough spare capacity to compensate for the loss of Iranian supplies, much of that capacity is in the Middle East Gulf region and potentially vulnerable should the conflict escalate further, said Giovanni Staunovo, analyst at UBS.

"The effectively available spare capacity might be much lower if renewed attacks on energy infrastructure on countries in the region happen," he said, adding the West might have to tap strategic reserves if there were severe disruptions. Israel has so far refrained from attacking Iranian oil facilities.

Oil analysts and security experts have said Israel could target Iran's oil refining sites and the Kharg Island oil port, which handles around 90% of the country's crude exports.

During the Iran-Iraq War in the 1980s, Baghdad regularly attacked tankers around Kharg Island and threatened to destroy the oil terminal.

"Iran and its proxies could potentially target energy operations in other parts of the region in order to internationalize the cost if the current crisis devolves into an all-out war," said Helima Croft from RBC Capital Markets.

In 2019, a drone attack by Iranian proxies on Saudi oil processing facilities briefly knocked out 50% of the kingdom's crude production.

"In case of an escalation Iran's proxies might launch attacks on Middle East oil producers, namely Saudi Arabia," said Tamas Varga from PVM.

Riyadh and Tehran have had a political rapprochement since 2019, which helped ease regional tensions, but relations remain difficult.

Oil prices have traded in a narrow range of $70-90 per barrel over the past years despite the war between Russia and Ukraine and conflict in the Middle East.

A rise in U.S. production has helped ease the fear premium in oil markets, said Rhett Bennett, chief executive at Black Mountain, which has operations in the U.S. Permian basin.

The U.S. produces 13% of global crude and almost 20% of global oil liquid production compared to OPEC's 25% global crude production share and some 40% by OPEC+.

"This diversity of supply from U.S. domestic sources, combined with healthy spare capacity within OPEC, is translating into the market feeling insulated from a dramatic supply shock – regardless of perpetual Middle East flare ups," Bennett said.

A broad conflict in the Middle East, however, with a major impact on production would inevitably push oil prices up. That would drive up fuel costs.

A related rally in gasoline prices could hurt U.S. vice president Kamala Harris in her campaign to win the Nov. 5 presidential election against Republican candidate Donald Trump.

"The United States will likely try to push Israel for a more modest response, wanting to avoid a significant escalation in tensions," said Warren Patterson from ING.

**US crude oil inventories rise as refining activity dips, EIA says**

U.S. crude oil inventories rose last week as refinery utilization rates fell amid weakening fuel demand, data from the Energy Information Administration showed on Wednesday.

Crude inventories rose by 3.9 million barrels to 417 million barrels in the week ended Sept. 27, the EIA said, compared with analysts' expectations in a Reuters poll for a 1.3 million-barrel draw.

Crude stocks at the Cushing, Oklahoma, delivery hub rose by 840,000 barrels.

"As we descend into seasonal refinery maintenance, a chunky drop in refining activity has ushered in a build to crude inventories," said Matt Smith, analyst at ship tracking firm Kpler. Global Brent and U.S. crude futures pared gains following the report to up a little over 2%. They had been up by 3% earlier in the day.

Refinery crude runs fell by 662,000 barrels per day, while refinery utilization rates fell by 3.3 percentage points in the week to 87.6%, the EIA said. Many refiners begin seasonal maintenance after the summer driving season ends. "It's a big pullback in the refinery utilization rate. Right there is the vast majority of your build," said Bob Yawger, director of oil futures at Mizuho in New York. "Those barrels get stuffed into storage," he added.

Meanwhile, U.S. gasoline stocks rose by 1.1 million barrels in the week to 221 million barrels, the EIA said, compared with analysts' expectations for a 67,000-barrel draw.

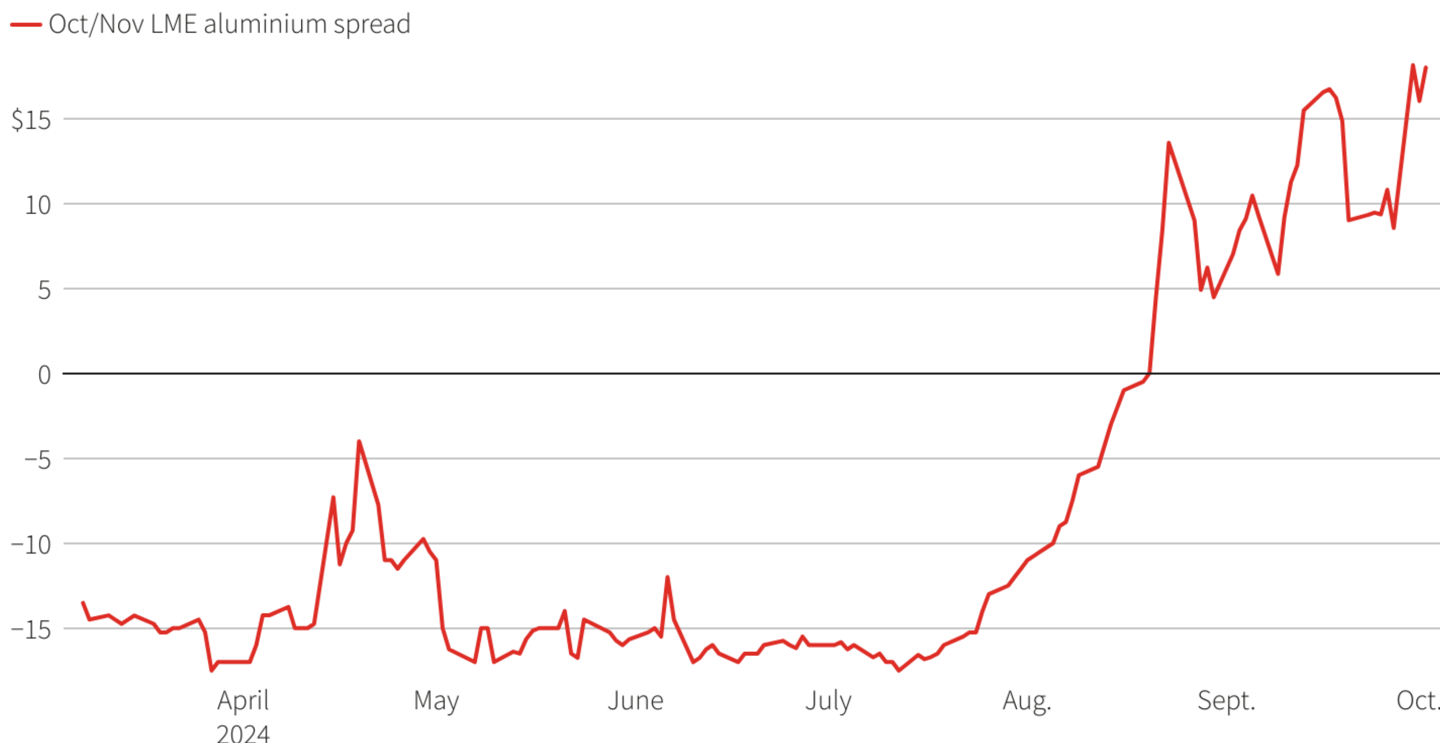
Gasoline product supplied, a proxy for demand, fell on the week to 8.5 million bpd, down from 9.2 million bpd. Meanwhile distillates supplied fell 3.6 million bpd, from 4 million bpd last week. “The bottom just fell out of summer gasoline demand, and there was a decent sized drop in distillate fuel demand too,” said John Kilduff, partner at Again Capital Distillate stockpiles, which include diesel and heating oil, fell by 1.3 million barrels in the week to 122 million barrels, compared with analysts' expectations for a 1.54 million-barrel draw.

Net U.S. crude imports rose last week by 191,000 barrels per day, EIA said.

## Chart of the Day

### Aluminium spread spikes on London Metal Exchange

The premium of the LME October aluminium contract over November has surged to $18 per metric ton from a discount of $17.50 in July




Note: Spread between October and November LME aluminium prices in dollars per metric ton
Source: LSEG

LSEG DATA & ANALYTICS

## Top News - Agriculture

**EXCLUSIVE- Egypt's GASC strikes deal on direct monthly wheat supplies, sources say**

Egypt's state grains buyer has struck one of its largest ever direct wheat deals for monthly supplies from November to April, two sources with direct knowledge of the matter told Reuters.

The wheat will be shipped to the General Authority for Supply Commodities (GASC) with around 510,000 metric tons to be supplied every month sourced from Black Sea origins, and totalling up to 3.12 million tons over the period, one of the sources said. Egypt is one of the world's biggest wheat importers and uses the purchases to make heavily subsidised bread, a politically sensitive benefit available to tens of millions of people.

The state buyer usually buys the strategic commodity through transparent international tenders that move the global grains market. It has opted to buy wheat privately through direct deals in recent years to garner more competitive prices, with this newest deal marking its largest ever agreement. The deal is set to be supplied by a joint venture between an Egyptian entity and a major global supplier on a monthly basis, the source said without disclosing the names of the companies due to the sensitivity of the matter.

The joint venture had already agreed to supply GASC with 430,000 metric tons for October shipment, Reuters reported last month. The price for the deal will be agreed upon based on market prices on a monthly basis, the same source said.

GASC did not respond to a request for comment. Some traders have cast doubt on whether the deal will be fulfilled, with one saying that it could be conditional on whether the company will be able to fulfill its October shipment. GASC had tried to secure a similar quantity through its largest ever tender in August, which was personally ordered by Egyptian President Abdel Fattah al -Sisi as a result of food security concerns sparked by an intelligence briefing. Egypt has suffered several financial shocks in recent years including from Russia's invasion of Ukraine in 2022 which disrupted supply chains and caused global wheat prices to skyrocket.

The North African country has also been struggling with an acute foreign currency shortage, rising debt, record-high inflation and rolling blackouts over the past two years that have led to growing frustrations among Egyptians.

**Russia's Sovecon cuts 2024/25 wheat export forecast on bad weather**

Agricultural consultancy Sovecon cut its 2024/25 Russian wheat export forecast on Wednesday to 47.6 million metric tons from 48.1 million tons due to bad weather affecting the harvest, noting high export volumes at the start of the season.

Total grain exports are estimated at 55.4 million metric tons, compared to 56.5 million metric tons earlier, it said. Russia is the world's largest wheat exporter.

The consultancy said wheat stocks in Russia were at 24.8 million tons, 14% lower than in the same period of last year, while one month ago the stocks were at 22.5 million tons, 20% higher than the year before. "Despite a modest harvest, wheat exports from Russia are progressing at a rapid pace," Sovecon said, adding that in July -August Russia exported 9.5 million tons of wheat, only slightly below last year's record 9.7 million tons.

However the consultancy said that despite the reduction, wheat stocks remain at a high level thanks to this year's accelerated harvesting campaign, as farmers rushed to salvage their crops.

High stocks will exert downward pressure on domestic wheat prices, Sovecon said.

## Top News - Metals

**LME monitors tightness in aluminium market after spike in spread**

The London Metal Exchange (LME) is tracking tightness in the aluminium market, which has seen a key spread shoot to a sizeable premium and one party amass a large long or bullish position in the October contract.

"The LME is closely monitoring the tightness in the aluminium market and has the necessary controls in place to ensure continued market orderliness," the LME said on Wednesday in response to a request for comment.

The premium of LME October aluminium over November hit $18 a metric ton on Wednesday from a premium of $5.85 about three weeks ago and a discount of $17.50 in July.

The premium is known as backwardation and usually is a sign of tight near-term supply. The benchmark LME aluminium contract climbed after the LME said it was monitoring the market, rising 1.2% to a near four-month high of $2,680 a ton. Prices could make further gains ahead of the October expiry in about two weeks if those with short or bearish positions scramble to cover, traders said. If short positions are not settled on expiry by delivering physical material, buying back positions can lead to sharp price rises.

BIG LONG POSITION

LME data shows that one party is holding a long position in October accounting for over 40% of market open interest. Arrayed on the other side of the market are five short positions, each accounting for up to 9% of open interest. Traders say the issue is complicated by a concentration of LME aluminium inventories in

warehouses in Port Klang, Malaysia, which hold 74% of total stocks. About two-thirds of the inventories at Port Klang are being prepared to be delivered out, creating a shortage of available stocks to the market.
Traders said warehousing company ISTIM has ruffled the feathers of some parties by raising fees to cancel delivery notices or "re-warrant" stocks up to a maximum of $27.50 per ton, compared to $5-$10 fees at other warehouses.
A warrant is a legal document showing ownership of inventories. A source with knowledge said ISTIM last week re-warranted metal at zero cost. ISTIM declined to comment.
The LME said its warehouse agreement prohibits warehouses imposing unreasonable charges for depositing metal.
"The LME would investigate any concerns of this nature which are brought to its attention".
ISTIM controlled 94% of total LME inventories stored in Port Klang in August, the latest LME data showed.
"ISTIM's move to charge for re-warranting of metal has meant those financiers who might look to deliver metal are finding the cost prohibitive," said Alastair Munro at broker Marex.

**COLUMN- Exuberant iron ore, subdued copper show different sides of China stimulus: Russell**

China's significant stimulus measures have kicked the prices of key metals higher, and the gains have largely been sustained even amid a debate as to whether Beijing has actually done enough to boost the world's second-biggest economy.
The raft of announcements last week, which included lower interest rates and easier home purchase terms, saw metals prices respond, especially those with a high degree of China exposure, such as iron ore.
The price of the key steel raw material leapt on both China's domestic exchange and in Singapore, the main contract for global investors. China buys about 70% of global seaborne volumes, with the major exporters being Australia and Brazil.
The Dalian Commodity Exchange contract jumped 10.7% to finish at 821.5 yuan ($117.14) a metric ton on Monday, having earlier in the session hit 835 yuan, its highest since July 16.
The contract hasn't traded since then given China's extended Golden Week public holidays, but Singapore Exchange futures ended at $108.24 a ton on Tuesday, up 15.4% from the previous close, taking the gain from the recent low of $91.38 on Sept. 23 to 18.4%. What is clear is that the sharp jump in the price of iron ore is a sentiment-driven rally, largely driven by Chinese retail investors.
Iron ore prices had been trending lower since reaching $143.60 a ton on Jan. 3, the second trading day of the year, largely as China's steel output moderated amid tepid demand from the key property sector. New home

**MARKET MONITOR as of 06:45 GMT**

| Contract | Last | Change | YTD |
|---|---|---|---|
| NYMEX Light Crude | $71.22 / bbl | 1.60% | -0.60% |
| NYMEX RBOB Gasoline | $1.99 / gallon | 1.56% | -5.57% |
| ICE Gas Oil | $675.50 / tonne | 0.90% | -10.02% |
| NYMEX Natural Gas | $2.92 / mmBtu | 1.00% | 15.95% |
| Spot Gold | $2,657.00 / ounce | -0.03% | 28.82% |
| TRPC coal API 2 / Dec, 24 | $122.5 / tonne | -1.41% | 26.29% |
| Carbon ECX EUA | €62.56 / tonne | -0.06% | -22.16% |
| Dutch gas day-ahead (Pre. close) | €38.50 / Mwh | -0.98% | 20.88% |
| CBOT Corn | $4.50 / bushel | 0.06% | -6.97% |
| CBOT Wheat | $6.37 / bushel | -0.08% | -0.43% |
| Malaysia Palm Oil (3M) | RM4,172 / tonne | -0.57% | 12.12% |
| **Index** | **Close 02 Oct** | **Change** | **YTD** |
| Thomson Reuters/Jefferies CRB | 341.47 | 0.28% | 13.29% |
| Rogers International | 27.79 | -0.23% | 5.57% |
| U.S. Stocks - Dow | 42,196.52 | 0.09% | 11.96% |
| U.S. Dollar Index | 101.84 | 0.16% | 0.50% |
| U.S. Bond Index (DJ) | 453.93 | -0.23% | 5.39% |

prices fell at the fastest pace in more than nine years in August, according to official data released on Sept. 14, sliding 5.3% from a year earlier. There is also a massive overhang of unsold properties, which has put developers under financial stress and undermined confidence among buyers.
The question for the market is whether the latest round of stimulus measures is enough to significantly shift the needle for steel demand, or whether at best they will arrest the current decline without sparking a recovery. Will the measures actually result in higher steel demand, or is the current path of 2024 output likely to be below last year's production still the most likely outcome? It's hard to construct a case that will see a strong rise in steel demand from property by the end of the year. A recovery may be possible in 2025, especially if Beijing continues to implement measures to boost the sector.

STEEL OPTIMISM
It's outside of property where steel demand may move higher, with policies to boost sales of new energy vehicles and more energy-efficient appliances may result in higher manufacturing demand.
Infrastructure demand for steel may also lift as Beijing encourages local governments to accelerate projects.
Overall, this means that despite the stimulus last week being by far and away the most significant this year, there are still real doubts as to whether it will result in a major improvement in physical demand for commodities. It's also likely the case that even if China's domestic steel demand does improve from 2025 onwards, it will merely result in a shift to local consumption and a reduction in exports. However, it's also worth noting that sentiment-driven price rallies, such as the current uplift in iron ore, can sustain for an extended period if investors remain confident in the longer-term outlook. While iron ore's reaction to the stimulus has been exuberant, the more subdued response by copper shows some investors remain cautious over China's prospects.
China accounts for just over half of the world's copper demand, giving it a dominant position, but also not one that is completely immune to developments in the rest of the world. Shanghai copper contracts ended at 78,810 yuan ($11,227) a ton on Monday, up 1.8% from the close of 77,400 yuan on Sept. 26. London copper closed at $9,979 a ton on Tuesday, around the same level it was prior to the first stimulus announcements last week, and down from the four-month high of $10,080.50 reached on Sept. 26 amid the initial flurry of China optimism. The difference between copper and iron ore is that the iron ore price is far more susceptible to the actions of Chinese retail investors. Copper's muted response to China's stimulus measures is likely because the Western investor community is more sceptical, and at the same time is concerned about the state of demand in the rest of the world.
***(The opinions expressed here are those of the author, a columnist for Reuters.)***

## Top News - Carbon & Power

**Dutch regulator prepares to charge electricity producers tariffs for grid**
Dutch market regulator ACM is drawing up plans to charge major electricity producers a tariff for supplying electricity to the grid for the first time, saying this was needed due to rising costs. "It is important that the costs be divided equally among all users of the electric grid and that suppliers and users abroad also pay for Dutch infrastructure," ACM management board member Manon Leijten said in a statement on Wednesday.
Under the current Dutch system, users - not producers - bear the cost of the grid. The size of tariffs has not yet been determined, the ACM added. The move to introduce a tariff for producers comes as costs of constructing the Dutch grid are rising quickly.
TenneT, the Dutch government-owned firm that is the largest high tension grid operator in Germany and the Netherlands, plans to spend 160 billion euros($177 billion) in the coming decade. Much of that is to build infrastructure to support burgeoning wind turbine parks in the North Sea. "The ACM has calculated that costs for all users of the net will rise from 7 billion euros annually at present to 15-25 billion annually" by 2040, the ACM said.
"Because of this heavy increase, an honest division of costs has become more important." It said power plants, solar parks and battery or storage facilities should all contribute to costs. A spokesperson for producers' industry group Energie Nederland said it opposed the plan, which it argued would discourage investment in renewable power and could harm those that have already invested in it. Energy Nederland's members include both Dutch producers such as Eneco and energy giants Shell, RWE and Vattenfall, that have invested in North Sea wind farms. The ACM said it expected to publish a draft decision on the size of tariffs in 2025.

**France to stick with wind power development targets**
France is aiming for a target growth rate of 1.5 gigawatts (GW) per year in onshore wind power, Energy minister Olga Givernet said on Wednesday, which would be in line with the previous government's renewable energy policy goals. In the run up to parliamentary elections in the summer, the far-right National Rally (RN) made stopping wind power a feature of their election campaign, and also promised to "gradually dismantle" existing wind parks.
The RN suffered a setback in the vote, with a leftist alliance taking the top spot, but no group getting a majority. New Prime Minister Michel Barnier said on Wednesday that the government intended to pursue nuclear power and renewable energy development, while

better measuring all their impacts - particularly in wind power - saying that planning work would resume immediately. Givernet said the government would target having 45 GW of offshore wind power in service by 2050, and said a map of priority areas for its development would be announced soon, with a call for tenders by early 2025.
France produces nearly 70% of its electricity supply from nuclear reactors, and lags other European countries in renewable supply development due to difficult permit processes.
The wind power development plan sticks to the goals announced by the previous government, whose multi-year energy plan was hampered by a lack of an absolute majority in France's National Assembly. It was previously planned for 2023.
The previous iteration of the plan aimed for an onshore wind supply development rate of 1.5 GW per year, with a "more balanced distribution" and an installed capacity of 33 to 35 GW by 2030, up from 22 GW at the end of 2023.

## Top News - Dry Freight

**Russian grain exporters' lobby urges curbs on low price exports**
Russia's export volumes from the first quarter of the 2024 -2025 season were excessive, the country's grain exporters' union said on Wednesday, calling for a quota mechanism to limit shipments.
The union said the first quarter export volume was roughly 17 million metric tons, citing preliminary data, already a quarter of the new season's export potential.
That volume "exceeds reasonable parameters based on the export potential of the season and demand on the world market," the union said in a post on its Telegram channel.
The union, which claims to represent companies with an 80% share of Russia's grain export market, said last season's record export of 70 million tons was supported by massive harvests and large carryover stocks in recent years. It said the export potential for the current season was 60 million tons and that the rest should be retained for domestic consumption.
"It is necessary to temper the enthusiasm of some companies and entrepreneurs who are exporting domestic grain to third countries for next to nothing in hopes of obtaining an increased quota," the union said.
The quotas for the second half of the season, from February to June, are dependent on export volumes in the first half of the season.
The union did not specify which grain traders were exporting excessive volumes at low prices but said it will ask the agriculture ministry to review the quota distribution mechanism for the second half of the season.

**Union Pacific says FXE issuing some US-Mexico grain shuttle permits**
Union Pacific Corp said on Wednesday that Ferromex (FXE), the Mexican railroad it interchanges with, has resumed issuing permits for grain shuttle trains at the U.S.-Mexico border crossing at Eagle Pass, Texas.
FXE could not be reached for comment on Wednesday.
Pipeline issues are beginning to improve, Union Pacific told Reuters in an email statement.
Grain shuttle train traffic between the U.S. and Mexico has been snarled in recent months as booming demand outstripped the system's capacity, creating heavy congestion and a growing backlog of loaded trains, agricultural export sources said. Efforts are ongoing to clear up service interruptions at the U.S.-Mexico crossing at El Paso, Texas, Union Pacific said. "Permits for El Paso will be granted once regular crossing cadence is established."
U.S. East and Gulf Coast port workers have gone on strike, holding up some imports of beef that restaurants and retailers increasingly rely on to make hamburgers due to limited domestic supplies, traders and industry members said.
This week, Berkshire Hathaway-owned BNSF Railway said it had resumed issuing permits for grain shuttles heading to Mexico.

## Picture of the Day

*Containers are stacked at the Portsmouth Marine Terminal, as port workers from the International Longshoremen's Association participate in a strike, in Portsmouth, Virginia, U.S., October 2. REUTERS/Jose Luis Gonzalez*

(Inside Commodities is compiled by Arya Sinha in Bengaluru)

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

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