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Top News - Oil

Saudi Arabia, United States clash over reason for OPEC+ oil cut

Saudi Arabia rejected as "not based on facts" criticism of an OPEC+ decision last week to cut its oil production target despite U.S. objections, and said on Thursday that Washington's request to delay the cut by a month would have had negative economic consequences.

The White House pushed back against that on Thursday, saying it presented the Saudis with an analysis that showed the cuts could hurt the world economy, and alleging the Saudis pressured other OPEC members on a vote. Officials from both countries are expected to discuss the situation shortly.

The back-and-forth has added to what has already been a frosty period of relations for the two countries, who have had an energy-for-security alliance for decades.

OPEC+, the producer group comprising the Organization of the Petroleum Exporting Countries (OPEC) plus allies including Russia, last week announced a cut of 2 million barrels per day to its production target after weeks of lobbying by U.S. officials against such a move.

The move came even though fuel markets remain tight, with inventories in major economies at lower levels than when OPEC has cut output in the past.

The OPEC+ cut has raised concerns in Washington about the possibility of higher gasoline prices ahead of the November U.S. midterm elections, with the Democrats trying to retain their control of the House of Representatives and Senate.

U.S. President Joe Biden pledged earlier this week that "there will be consequences" for U.S. relations with Saudi Arabia after OPEC+'s move.

Asked on Thursday about the situation during a Los Angeles trip, Biden told reporters "We're about to talk to them."

The OPEC+ decision was adopted through consensus, took into account the balance of supply and demand and was aimed at curbing market volatility, the Saudi foreign ministry said in a statement on Thursday.

The Saudi foreign ministry statement referred to consultations with the United States prior to the Oct. 5 OPEC+ meeting in which it was asked to delay the cuts by a month.

"The Kingdom clarified through its continuous consultations with the U.S. administration that all economic analyses indicate that postponing the OPEC+ decision for a month, according to what has been suggested would have had negative economic consequences," the Saudi foreign ministry statement said.

The United States accused Saudi Arabia of kowtowing to Moscow, which objects to a Western cap on the price of Russian oil in response to its invasion of Ukraine.

"We presented Saudi Arabia with analysis to show that there was no market basis to cut production targets, and that they could easily wait for the next OPEC meeting to see how things developed," said White House spokesman Jack Kirby, in a statement, which added that other OPEC nations told the United States that they felt "coerced" to support the Saudi decision.

The Saudi foreign ministry statement, quoting an unnamed official, stressed the "purely economic context" of the oil cut. Oil demand has weakened worldwide, with OPEC, the U.S. Energy Department, and the International Energy Agency all lowering forecasts for 2023 demand this week.

However, the IEA on Thursday added that OPEC's move could worsen demand, saying "higher oil prices may prove the tipping point for a global economy already on the brink of recession."

The Saudi statement said the kingdom views its relationship with the United States as a "strategic one" and stressed the importance of mutual respect. The Gulf Cooperation Council (GCC) issued a statement in support of Saudi Arabia's comments praising the kingdom's efforts to protect the market from volatility.

In research last week, Goldman Sachs said in the last 25 years OPEC has never cut production when inventories in Organization for Economic Co-operation and Development countries - composed of 38 of the world's richest economies - were so low. OECD stocks are currently 8% below their five-year average. However, they noted that OPEC reduced output during periods of weak demand.

U.S. crude stockpiles surge on reserve releases; distillates draw down – EIA

U.S. crude stocks rose by nearly 10 million barrels last week after another big release from government reserves, while distillate inventories fell sharply, the Energy Information Administration said on Thursday.

Crude inventories rose by 9.9 million barrels in the week to Oct. 7 to 439.1 million barrels, data showed, compared with analysts' expectations in a Reuters poll for a 1.8 million-barrel rise.

The bulk of that bump in commercial stocks came from a 7.7 million-barrel release of reserves from U.S. Strategic Petroleum Reserve (SPR), though inventories without those reserves also rose.

Distillate stockpiles, which include diesel and heating oil, fell by 4.9 million barrels to 106.1 million barrels, their lowest since May, versus expectations for a 2 million-barrel drop.
"Ongoing concerns on the diesel front is warranted with another 4.8 million draw there," said Tony Headrick, energy market analyst at CHS Hedging.
That distillate drawdown came as heating oil demand is due to rise as winter months approach. Stockpiles of the fuel have remained tight due to heavy demand worldwide and refinery issues in both the United States and France.
U.S. exports of petroleum products rose last week to their highest on record at 7.1 million barrels per day, government data showed.
U.S. refiners have been running at above-average levels for this time of year to boost inventory levels, though they pulled back on activity last week.
Refinery crude runs fell by 278,000 bpd in the last week, while refinery utilization rates fell by 1.4 percentage points to 89.9% of overall capacity, the EIA said.
Gasoline stocks rose by 2 million barrels in the week to 209.5 million barrels, compared with expectations for a 1.8 million-barrel drop.
Oil prices rose on the news. Brent futures gained $1.49 a barrel to $93.94, a 1.6% increase, as of 11:19 a.m. EDT (1519 GMT), while U.S. crude rose $1.46 to $88.73 a barrel.

Top News - Agriculture

Argentina wheat crop forecasts cut again as drought hardens

Argentina's two major grains exchanges cut their forecasts for the upcoming wheat harvest on Thursday as drought and low temperatures hit the crop, with little relief in sight for key farming regions and scant rains forecast in weeks ahead.
A senior analyst at the key Rosario grains exchange, Cristian Russo, told Reuters that the 2022/23 wheat harvest would likely come in at 16 million tonnes, a 500,000-tonne cut from the entity's previous formal forecast.
A separate 2022/23 wheat crop estimate also issued on Thursday, from the Buenos Aires grains exchange, forecast a harvest of 16.5 million tonnes, down from the exchange's prior forecast of 17.5 million tonnes.
Argentina is a major exporter of wheat and its role in global markets has come into greater focus amid a worldwide supply crunch linked to Russia's invasion of Ukraine. Both countries are major wheat producers.
The Rosario exchange wheat forecast would mark Argentina's smallest crop in seven years and far below last year's record production of 23 million tonnes.
Rosario grains exchange analyst Russo told Reuters the lower expected yields are the result of months of scarce rainfall plus additional damage from a recent late season freeze.
Argentina is also the world's top exporter of processed soy oil and meal and the No. 3 for corn. Its grains exports are the main source of revenue for the cash-strapped government struggling to contain surging inflation seen hitting 100% by the end of this year.
Reuters reported on Wednesday that government officials will meet with wheat millers and exporters later on Thursday to discuss worries over the wheat crop and potential shortages for the domestic market.
The country's producers have already formally declared overseas sales of 2022/23 wheat of 8.85 million tonnes, official data show. There is an existing export cap of 10 million tonnes for the season's wheat harvest.
Used largely to make bread and pasta, domestic wheat consumption from the 2021/22 harvest totaled 7.6 million tonnes, government data show.
Nearly all of the 2022/23 crop is harvested in November through January, and ahead of those crucial months, near-term weather forecasts are not encouraging.
No significant rainfall is expected next week in the country's main wheat-producing areas, as well as adjacent farmland in Uruguay, according to a report issued Thursday by the Buenos Aires grains exchange.
The Argentine Pampas region and wheat plantings in Uruguay are expected to be mostly dry, with rainfall of less than 10 mm (0.39 inch) expected, the exchange noted. It added that strong winds will likely cause higher than normal temperatures.

Record EU sugar prices leave sweet-makers with bitter taste

Record-high sugar prices in the European Union, nearly three times levels seen a year ago following extreme weather and a surge in energy costs, are forcing confectioners to consider production cuts.
The record price of a widely-used food staple is another headwind for EU policymakers as they try to control inflation and curb a cost of living crisis.
Sugar dealers and industry experts said spot prices for refined white sugar on the continent are trading at around 1,050 euros ($1,016.61) a tonne - their highest level yet. Prices in the world market, by contrast, are around half those levels.
"We are in a sugar market crisis," Muriel Korter, director general of EU confectionery industry association Caobisco, told Reuters.

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"We fear our companies and especially our many small and medium-sized enterprises might soon face the difficult choice of whether or not to temporarily halt or reduce production this winter," she added.
Sugar production is among the most energy-intensive industries and is especially reliant in the EU on gas.
Benchmark EU gas prices are some 700% higher than levels seen at the start of last year, as Russia has sharply restricted supply this year.
Moscow has said the West’s sanctions, imposed following Russia’s invasion of Ukraine, are to blame for high energy prices.
France's two largest sugar makers Tereos and Cristal Union have brought forward the start of their 2022 production ahead of possible energy restrictions by the government this winter should the gas shortage worsen.
Meanwhile Germany's Suedzucker has posted an almost 80% rise in quarterly earnings, saying it should be able to pass on costs in the form of higher sugar prices, though its performance will depend on sufficient energy supplies being available.
"EU sugar prices are at their highest level ever. Beet sugar factories in Europe run on natural gas and look at where gas prices are," said Julian Price, consultant at julianprice.com and former President of ASSUC, the European Sugar Traders' association.
Germany's confectionery industry association BDSI told Reuters that Germany, the EU's largest producer of sweets and snacks, is in danger of losing its competitiveness even versus European countries, let alone international ones.
Germany has suffered especially heavily from cuts in Russian gas supplies.
The European Commission expects sugar output to fall by 6.9% in the 2022/23 (October-September) season to 15.5 million tonnes following a drop in planted area and a severe summer drought, while consumption is seen well in excess of those levels at 16.6 million tonnes.

Top News - Metals

Iron ore outlook clouded by global demand woes, supply risks

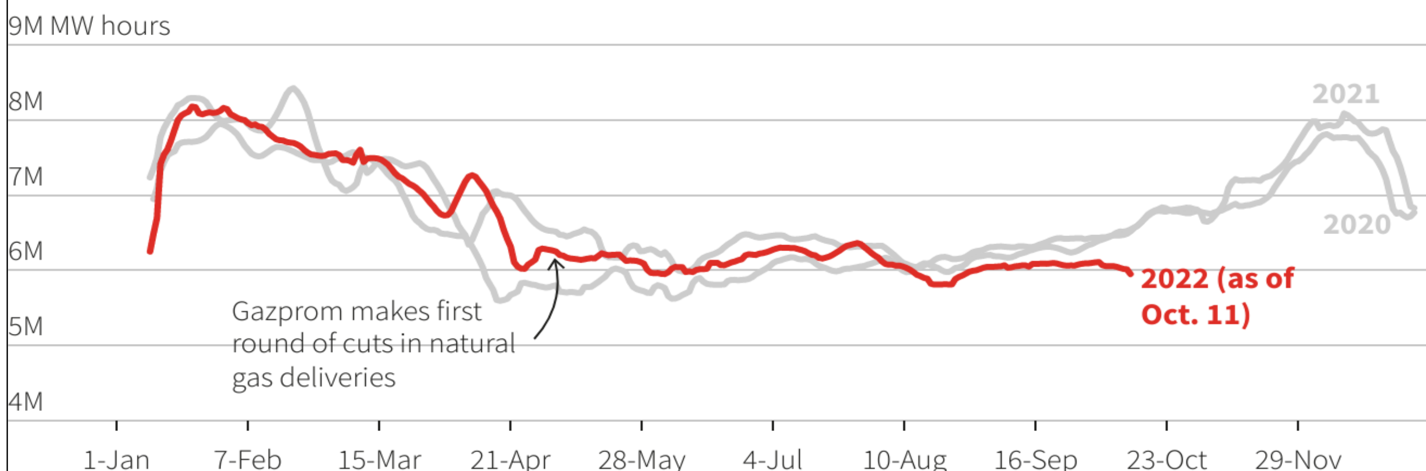
Iron ore prices are on track to end 2022 at their lowest in the last three or four years and will probably languish next year as well, with China and Europe cutting steel output, while pressure mounts from additional supply.
Price forecasts for the key steelmaking ingredient range from about $90 a tonne to a high of $115 by the end of the year, a Reuters survey of five analysts and researchers shows.
Year-end prices have not been in this territory since the 2019 figure of $93 a tonne, itself off the even lower 2018 level of $72.60, data from consultancy SteelHome shows.
"COVID-19 and property sector slowdown continue to weigh down steel demand in China," said Malan Wu, research director at consultancy Wood Mackenzie.
"Prices in Western countries will remain subdued for the rest of the year because of weak demand, high inflation, and fears of recession."
Spot prices of ore bound for China, maker of about half the world's steel, have fallen roughly 40% from this year's peak above $160 in March, as it sticks to tough COVID-19 curbs and its property sector battles a liquidity crunch and weak demand.
Australia, the world's biggest exporter of the ore, has projected a drop of 0.6% in global steel output this year to 1.947 billion tonnes, factoring in drops of 2% and 7.1% in China and the European Union, respectively.
"Combined with growing global recessionary fears, new COVID-19 outbreaks and weakness in China's housing sector have dampened world steel and iron ore demand in recent months," its government said in a quarterly report this month.
China buys nearly 70% of seaborne iron ore and about two-thirds of that is supplied by Australia.
The fallout from the Ukraine conflict is still hobbling markets, the report added, by drying up ore supplies, while a growing energy crunch hampers Europe's steel output.
A collapse in ore prices would hit major producers, such as BHP Group, Rio Tinto, Vale SA, and others in Australia and No. 2 supplier Brazil.
But some, such as BHP, the world's largest listed miner, are unfazed.
"We feel confident enough to say that, at a minimum, China will be a source of stability over the coming year," said Huw McKay, the firm's vice president for market analysis and economics.
That confidence is bolstered by China's resolve to shore up its economy with stimulus measures, in contrast to the global trend towards tightening, he added.
Analysts at J.P. Morgan cut their price forecasts for iron ore last month, to $103 a tonne for the second half of 2022, from $133, and for next year, to $94 from $105.
"As majors grow volumes, Chinese domestic supply will need to be curtailed to make room," they said in a report last month, projecting an additional 50 million tonnes of supply in 2023 from big producers, including Brazil's Vale.
Vale's daily output has risen sufficiently to meet its 2022 volume guidance, the analysts said, after a deadly mine disaster in 2019 forced safety checks and production cuts.

However, Vale has cut its 2022 ore production forecast, partly because of lower market prices, which hurt second-quarter profits and brought a downgrade to "market perform" from analysts at Itau BBA.
Fading hopes for China to relax its zero-COVID rules, along with the usual steel production curbs during the cold months, make prospects uncertain for a price bounce towards the end of the year.
"Europe's energy crisis and winter curbs in China leave little room for any recovery in steel production in the fourth quarter," ANZ commodity strategists said in a note on Oct. 7.

Alcoa asks White House to block U.S. imports of Russian aluminum

U.S.-based aluminum producer Alcoa Inc on Thursday said it is lobbying the White House to block American imports of the metal from Russia following Moscow's latest military escalation in Ukraine.
Reuters reported this week that President Joe Biden's administration was considering a range of options related to imports of Russian aluminum, including possibly blocking Rusal, the world's largest aluminum producer outside China, from selling its products in the United States.
In March, Biden banned American imports of Russian oil and other energy products. Aluminum was exempt due in part to concerns that such a step could boost consumer prices. Aluminum is used in a range of consumer products as well as airplanes, automobiles and other heavy machinery.
As Russia's invasion of Ukraine has dragged on this year, Washington has been left with fewer Russian industries to sanction, fueling interest in blocking American purchases of Russian aluminum.
Moscow bombarded Ukraine with more than 100 missiles this week, killing at least 26 people in what Biden called a "brutal" attack.
"Alcoa believes that the U.S. government and other countries should sanction Russian aluminum," spokesperson Jim Beck said in an emailed statement to Reuters on Thursday. The company stopped buying from Russian businesses and selling into Russia in March.
Separately, Alcoa said it has asked the London Metal Exchange to delist Russian aluminum, saying the global contract for the metal "will be disproportionately influenced by one brand that much of the Western world has rejected and would not properly reflect supply and demand dynamics."
Rusal did not immediately respond to a request for comment.
Any move against Rusal or Russia's aluminum industry would likely benefit Alcoa as well as its non-Russian peers.
Century Aluminum Co did not respond to requests for comment. Rio Tinto, which produces aluminum as well as other metals, declined to comment.

Chart of the Day



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Top News - Carbon & Power

EU leaders may back new gas price benchmark, document shows

European Union country leaders may support plans to launch a new gas price benchmark at a meeting next week, as they seek to curb energy prices for consumers and industries, a draft document showed.
The leaders are set to meet on Oct. 20-21, days after the European Commission intends to propose measures to tackle an energy crisis that is driving inflation and damaging economies across the bloc.
A draft of their meeting conclusions, seen by Reuters, said EU leaders would agree to "develop a new benchmark that more accurately reflects conditions on the gas market".
Historically, the gas price at the Netherlands' Title Transfer Facility (TTF) hub has been used as a benchmark for liquefied natural gas deliveries into Europe. Brussels says a new index is needed since the TTF is guided by pipeline supply and no longer represents a market that includes more LNG.
Russia has greatly reduced pipeline gas deliveries to Europe since invading Ukraine at the end of February - prompting European countries to buy more LNG cargoes.
The document indicated it was not clear if leaders will agree to a "temporary market intervention" - wording that could refer to a gas price cap.
The 27 EU member states have been debating for weeks a possible cap.
After a meeting of countries' energy ministers on Wednesday, EU energy commissioner Kadri Simson said it was unclear if there was enough support for a price cap on gas used for power generation to be added to the upcoming EU proposals - a move countries including France and Romania have sought.
EU leaders are expected to endorse other measures, according to the document, which will be negotiated and could change before it is approved at next week's meeting.
They include EU countries coordinating the filling of their gas storage ahead of next winter, and speeding up negotiations with non-Russian gas suppliers to try to lower prices.
The document said such negotitations could be done through countries jointly buying gas to harness their "collective political and market weight".

COLUMN-Europe's gas prices retreat as storage almost full: Kemp

Europe's gas futures prices have started to soften as storage facilities become full, signalling the need to slow the pace of inventory growth, even though rationing could still be needed later this winter.
Futures for deliveries in January 2023, likely to be the coldest part of winter 2022/23, have fallen by almost 30 euros per megawatt-hour (MWh) since Sept. 13.
But prices for deliveries in November 2022, the start of the main heating season, have fallen much faster, by 49 euros per MWh over the same time period.
As a result, the calendar spread from November to January has slumped into a large contango of 18 euros per MWh from a backwardation of 4 euros as recently as the middle of July.
Traders now anticipate supplies will be plentiful during the first part of winter though concerns about availability later in the season persist.
Chartbook: Europe gas prices and storage

MAXIMUM STORAGE

Inventories in the European Union and the United Kingdom (EU28) have climbed to 1,029 terawatt-hours (TWh), according to data from Gas Infrastructure Europe.
Stocks are +110 TWh (+12% or +1.0 standard deviations) above the seasonal average for the previous ten years ("Aggregated gas storage inventory", GIE, Oct. 13).
And they are still rising by almost +3 TWh per day, a record for this time of year, as traders and utilities maximise stocks in response to government instructions.
Stocks are on course to continue accumulating later into October or even early November than usual, boosting the total, delaying the onset of depletion, and increasing winter energy security.
But storage sites are nearing their full capacity. For the European Union as a whole, storage is already at 92% of its maximum capacity.
Storage is close to the maximum in France (98%), Germany (95%), the Netherlands (93%) and Italy (93%), which collectively account for two-thirds of all EU inventories.
There is still some spare capacity in Hungary (77%), Austria (85%) and the Czech Republic (89%) and other small storers.
However, with space running short, nearby futures prices are retreating in a signal to slow the rate of inventory additions and encourage more consumption.

STILL NOT ENOUGH

The combination of falling nearby prices with firming prices later in the winter and the rest of 2023 highlights the limitations of Europe's storage system.
The system is designed to cope with seasonal variations in gas consumption, not the strategic loss of gas imports as a result of an embargo, boycott or sabotage disrupting imports or halting them altogether.

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The system has been filled enough to ensure gas is plentiful in the first part of winter, whatever the weather or what happens to supply from Russia.
But it cannot hold enough gas to ensure there is sufficient in the later part of the season in the event the winter is unusually cold or supplies from Russia are halted.
In that case, the market will still need much higher prices or some form of physical rationing to conserve stocks later in the winter.

Top News - Dry Freight

EXCLUSIVE-Russia is prepared to quit Black Sea grains deal, writes to UN with demands
Moscow has submitted concerns to the United Nations about an agreement on Black Sea grain exports, and is prepared to reject renewing the deal next month unless its demands are addressed, Russia's Geneva U.N. ambassador told Reuters on Thursday.
The agreement, brokered by the United Nations and Turkey in July, paved the way for Ukraine to resume grain exports from Black Sea ports that had been shut since Russia invaded. Moscow won guarantees for its own grain and fertiliser exports.
The agreement helped stave off a global food crisis: Russia and Ukraine are two of the world's biggest grain exporters and Russia is the number one fertiliser exporter. But Moscow has repeatedly complained about its implementation, arguing it still faces difficulty selling fertiliser and food.
In an interview with Reuters, Gennady Gatilov, Russia's ambassador to the United Nations in Geneva, said Moscow had delivered a letter to U.N. Secretary-General Antonio Guterres on Wednesday setting out a list of complaints. U.N. officials are due in Moscow on Sunday to discuss the renewal of the agreement.
"If we see nothing is happening on the Russian side of the deal – export of Russian grains and fertilisers – then excuse us, we will have to look at it in a different way," he said.
Asked if Russia might withhold support for the grains deal's renewal over the concerns, he said: "There is a possibility...We are not against deliveries of grains but this deal should be equal, it should be fair and fairly implemented by all sides."
Gatilov declined to make a copy of the letter available.
U.N. speokesperson Stephane Dujarric said: "We remain in constant touch with Russian officials, as well as with officials from the European Union, the United Kingdom and the United States in order to remove the last obstacles to facilitate the export of Russian grain and fertiliser."
He said Guterres was committed to those efforts and to having an extended and expanded Black Sea Grain Initiative.
Gatilov, a career diplomat who was deputy minister of foreign affairs before taking up the Geneva post, said that he saw fading prospects for a negotiated settlement to the nearly eight month war in Ukraine. He cited what he called "terrorist acts" such as an explosion on a bridge to Crimea.
"All this makes it more difficult to reach a political solution," he said.
Washington has said that Russian claims to be open to talks on the war's future amount to "posturing" as it continues to strike Ukrainian cities.
Asked about the prospect of a meeting between President Vladimir Putin and U.S. President Joe Biden, Gatilov said it was not feasible given the levels of U.S. military support for Ukraine. "It makes the U.S. a part of the conflict," he said.
However, he was more upbeat on other negotiated outcomes such as on aid access and a further prisoner swap, calling these "a possibility". He said a delegation of the International Committee of the Red Cross had met with Russia's defence ministry in Moscow recently about a possible swap, without giving further details. The ICRC did not immediately respond to a request for comment.

Turkey can help select countries for Russian grain, fertiliser exports -Erdogan
Turkish President Tayyip Erdogan said on Thursday that Ankara could work with Moscow on determining low-income countries to which Russian grains and fertilisers can be exported.
Erdogan met with Russian President Vladimir Putin in Kazakhstan's Astana on Thursday on the sidelines of a summit.
"We are determined to strengthen and continue the grain exports under the Istanbul agreement and the transfer of Russian grain and fertiliser to less developed countries via Turkey," Erdogan said, referring to a U.N.-brokered export deal in July.
"We may work on determining the name of countries. It is important that we focus on the poor countries rather than developed countries," he said.

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MARKET MONITOR as of 06:32 GMT			
Contract	**Last**	**Change**	**YTD**
NYMEX Light Crude	$89.47 / bbl	0.40%	18.96%
NYMEX RBOB Gasoline	$2.69 / gallon	-0.34%	20.90%
ICE Gas Oil	$1,129.75 / tonne	1.25%	69.38%
NYMEX Natural Gas	$6.72 / mmBtu	-0.36%	80.08%
Spot Gold	$1,670.14 / ounce	0.26%	-8.66%
TRPC coal API 2 / Dec, 22	$264 / tonne	2.31%	114.63%
Carbon ECX EUA / Dec, 22	€68.33 / tonne	-0.74%	-15.28%
Dutch gas day-ahead (Pre. close)	€85.00 / Mwh	5.04%	27.82%
CBOT Corn	$6.99 / bushel	0.11%	17.74%
CBOT Wheat	$8.92 / bushel	-0.41%	15.76%
Malaysia Palm Oil (3M)	RM3,796 / tonne	3.57%	-19.18%
Index (Total Return)	**Close 13 Oct**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	303.73	1.17%	22.96%
Rogers International	31.72	-0.02%	36.11%
U.S. Stocks - Dow	30,038.72	2.83%	-17.34%
U.S. Dollar Index	112.38	0.01%	17.10%
U.S. Bond Index (DJ)	373.32	-7.57%	-20.50%

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Picture of the Day

Palm oil fresh fruit bunches are seen at the collector site before being transported to CPO factories in Pekanbaru, Riau province, Indonesia. REUTERS/Willy Kurniawan

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(Inside Commodities is compiled by Shoubhik Ghosh in Bengaluru)

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

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