Oil | Agriculture | Metals | Carbon & Power | Dry Freight
Click on headers to go to that section

Top News - Oil

ANALYSIS-After decades, China sputters as engine of global oil demand growth

China's crude oil imports are on track to peak as soon as next year as transport fuel demand begins to decline for the world's top crude buyer, ending the country's decades-long run as the dominant driver of expanding oil consumption.

The speed of its transition to electric mobility has stunned oil producers and investors.

No single market is positioned to replace Chinese demand, which has made up 41% of annual global oil consumption growth averaging 1.1 million barrels per day (bpd) over the past three decades, according to the Statistical Review of World Energy.

EV and hybrid sales in China topped combustion engine vehicle sales for the first time in July, eating into China's need to import crude for refiners to make gasoline, with prolonged economic weakness also slowing overall oil consumption.

Demand for transportation fuels began to decline this year in a three-year plateau that started in 2023, said Ciaran Healy, demand analyst at the International Energy Agency, a view echoing a Chinese oil researcher's.

The plateau has come around two years earlier than the 2025-2027 period the IEA forecast as recently as June, Healy told Reuters.

As a result, producers and investors face the prospect that Chinese crude imports are nearing their peak, with only China's expanding petrochemicals sector poised to underpin oil consumption in coming years.

"The oil industry is sort of figuring it out," said Martijn Rats, chief commodity strategist at Morgan Stanley. He expects jet fuel and petrochemicals to drive Chinese oil demand growth at about 100,000-200,000 bpd annually in coming years, far below the long-term trend.

"Other countries are picking up the slack a little bit, but the incoming data is such that they're not offsetting the deceleration that we've seen in China," said Rats.

"If China doesn't grow at its historical trend rate, then it's very unlikely that the world will grow at its historical trend rate," he said.

While China's crude imports are set for a November bounce, they fell 3.4% annually in the first 10 months of 2024, a rare and steep decline surpassed only by the pandemic-triggered 7.2% drop for the same period in 2021.

That has hit crude prices, which have traded for most of the year in the $70-$80 per barrel range despite conflict in the Middle East and Ukraine, frustrating plans by OPEC to boost supply and driving four consecutive downward revisions in the producer group's 2024 demand growth forecasts.

FUEL PEAKS

In addition to the rise in EVs and an economic slowdown as China grapples with a property sector crisis, the replacement of diesel trucks by cheaper gas-fired vehicles is also stalling diesel consumption.

Jet fuel demand continues to grow, but not enough to offset erosion in gasoline and diesel use, even as Chinese refiners plan to start up new plants next year.

With combined demand for transport fuels peaking and low refining margins, China's refinery sector, long plagued by overcapacity, is set for an accelerating consolidation.

The speed of change in China's oil markets has led to widely varying forecasts for when fuel and crude demand will peak. Consultancy FGE predicts China's crude imports may peak next year at 11.2 million bpd, on par with the record set in 2023 and 440,000 bpd above levels in the first 10 months of 2024.

Energy Aspects said China's crude imports may grow 500,000 bpd between 2024 and 2026 as new refining capacity comes online, an average 250,000-bpd annual increase, with slim growth beyond that.

The outlook for diesel demand, which accounts for over 20% of China's oil use, is a key swing factor.

FGE believes China's diesel demand peaked in 2022, while the IEA said in November it peaked in 2023 at 3.7 million bpd, and S&P Commodity Insights sees the crest coming in 2027, at slightly over 4 million bpd.

Gasoline, another major oil product, will peak this year, according to IEA, Energy Aspects and Rystad Energy forecasts, as consumers embrace EVs and plug-in hybrids.

PETCHEM PIVOT

With fuel demand peaking, petrochemicals are set to be the main engine driving any medium-term oil demand growth, with China poised to raise imports of feedstocks LPG and ethane to plug a domestic supply gap, according to the IEA.

The peak in China's total oil liquid demand, including naphtha, LPG and fuel oil, will come towards 2030, driven by petrochemical production, analysts said.

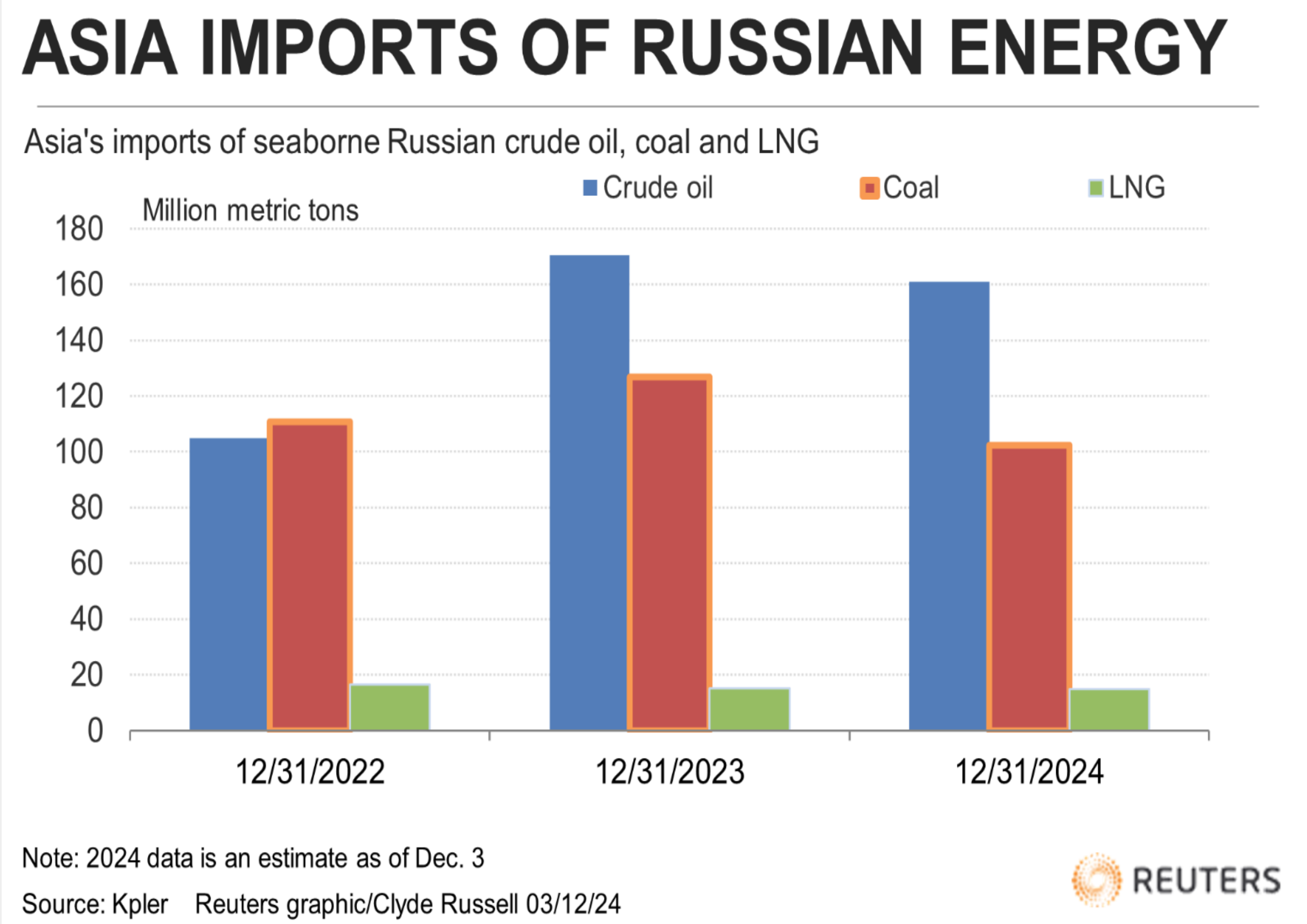
China became the largest maker of polymers during the pandemic years after big investments by private firms such as Rongsheng and Hengli Group and state refiners Sinopec and PetroChina pushing to boost self-sufficiency in petrochemicals.

The IEA expects China's total oil demand to peak around the end of the decade at 18.1 million bpd, 1.5 million bpd higher than in 2023, with growth at 2.7% per year from 2023 to 2025 before slowing to 0.6% a year between 2026 and 2030.

China will account for just 108,000 bpd of this year's global demand growth of 936,000 bpd - far below China's typical 40% share of liquids demand growth in the five years before 2020, Rystad Energy said in a recent note.
Although Beijing's recent stimulus has lent support to oil prices, analysts and industry insiders downplay expectations of a significant demand boost.
"Gasoline and diesel are dead as EVs grow at a surprisingly fast pace and there's more replacement by LNG," said a trader at an independent Chinese refiner, declining to be named as he was not authorised to speak with media.
"We are doing more on the petrochemical side given the growing demand, but as everybody rushes in, that prospect isn't looking good either."

OPEC+ likely to prolong oil cuts for Q1, sources say
OPEC+ is likely at its meeting on Thursday to extend its latest round of oil output cuts until the end of the first quarter, four OPEC+ sources told Reuters, to provide additional support for the oil market. OPEC+, which pumps about half the world's oil, has been gradually aiming to unwind output cuts through 2025.
However, a slowdown in global demand and rising output outside the group pose hurdles to that plan and have weighed on prices.
"It is likely that this reduction will be extended for the first quarter," one of the sources told Reuters. All of the sources declined to be identified by name.
OPEC+, which groups the Organization of the Petroleum Exporting Countries and allies such as Russia, meets on Thursday to decide its output strategy.
Despite the group's supply cuts, global oil benchmark Brent crude has mostly stayed in a $70 to $80 per barrel range this year and on Monday was trading around $72 a barrel, having hit a 2024 low below $69 in September.
OPEC+ members are holding back 5.86 million barrels per day of output, or about 5.7% of global demand, in a series of steps agreed since 2022 to support the market.
An output hike of 180,000 bpd - a fraction of the total - was due to come in January from the eight members involved in OPEC+s most recent cuts of 2.2 million bpd.
The hike has been delayed from October due to falling prices.

Chart of the Day



Top News - Agriculture

Australia raises wheat production forecast by 60,000 tons

Australia raised its national 2024/25 wheat harvest estimate by 60,000 metric tons to 31.9 million tons on Tuesday, with good yields in the east and west forecast to compensate for losses in the south to deliver above-average production.

A bigger wheat harvest from Australia, which is one of the world's biggest exporters, will increase global supply at a time when prices are near four-year lows.

The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), part of the agriculture ministry, also said the country would produce about 500,000 tons less barley and 100,000 tons more canola than it thought three months ago.

"Higher production in New South Wales, Queensland and Western Australia is expected to mostly offset reduced production and crop losses in large parts of south-eastern Australia caused by persistent dryness and widespread severe frosts," ABARES said in its quarterly report.

Frosts and dry weather caused private-sector analysts to slash their wheat production estimates, but results from the harvest, which is in full swing, have exceeded expectations.

ABARES estimates that the 2024/25 wheat crop will be 23% larger than the previous season's and 20% above the 10-year average to 2023/24.

Australia should produce 11.7 million tons of barley in 2024/25, 8% more than in 2023/24 and 3% above the 10-year average, and 5.6 million tons of canola, 8% less than last season but 23% above the 10-year average, ABARES said. In early September, ABARES forecast production in 2024/25 of 31.8 million tons of wheat, 12.2 million tons of barley and 5.5 million tons of canola.

ABARES said, however, that the latest weather forecasts from Australia's Bureau of Meteorology predict above-median rainfall across most cropping areas in December. "If realised, rainfall across eastern cropping regions will likely interrupt the harvest of remaining winter crops and may cause grain quality downgrades," it said.

Rains bring relief to Argentina's agricultural heartland

Recent rains across Argentina's agricultural heartland have brought much-needed moisture to the soil as the planting of corn and soybeans are underway, Rosario's grains exchange reported on Monday.

Argentina, a key grains exporter worldwide, went through a mostly dry winter and is now facing almost weekly rain fronts as the Southern Hemisphere summer approaches.

Weekend rains fell over the southern region, where the soil had dried out, after largely falling in the north before that, according to the exchange.

Farmers are in the early stages of planting soybeans and corn.

The rains have let soybean planting progress smoothly, according to a report from the Buenos Aires Grains Exchange last week.

The Rosario exchange pegs the soybean harvest at 53 million-53.5 million metric tons. It sees the corn harvest yielding 50 million-51 million tons. Argentina is the world's third-largest corn exporter as well as a major wheat supplier.

In January, wheat harvesting is expected to wrap up, with the Rosario exchange estimating output at 18.8 million tons.

Top News - Metals

Indigenous mining complicates Brazil's fight against illegal gold

The involvement of Indigenous people in illegal gold hunting, lured by the prospect of easy money due to record prices, has made Brazil's task of cracking down on wildcat mining in the Amazon far harder, environmental agents and police say.

The Munduruku territory, a reservation the size of Switzerland on the Tapajos river, a major Amazon tributary, has become a hot spot for illegal mining, which Brazilian law bans on Indigenous land.

But increasingly, Munduruku tribe members are entering the illegal trade that is backed by organized crime.

On a recent enforcement operation by Brazil's environmental protection agency IBAMA, agents swooped down in helicopters on muddy tailing ponds to find a camp in a clearing, but the miners had fled, alerted by the noise of the approaching choppers. A pressure cooker on a gas stove was still hot, and dogs barked. The agents destroyed two motors used to pump water through filters to trap nuggets of gold. They said the hammocks and clothing were evidence the miners were Indigenous.

Gold mining has brought division within the Munduruku tribe, a majority of whom believe it is wrong, though their leaders say lack of government assistance forces people to seek other ways to deal with poverty.

On one recent morning, panhandler Samuel Manga Bal found 60 grams of gold on the river: 20 times his usual daily amount.

But his brother Domingo was furious and threatened to kill him if he continued, so he was forced to leave their village.

"He wanted me gone," said Manga Bal, now living off growing manioc, but intending to return to mining when he can.

"I'm going to go back to mining, because things are so bad now. We don't even have coffee, there's no sugar, nothing, no food, just manioc flower."

The reservation is located in the municipality of Jacareacanga, a booming town of 26,000 people, where large 4x4 pickups roar along mostly unpaved streets and shops openly buy gold from miners.

Trucks arrive carrying heavy backhoes and uploaders used to dig prospecting ponds.

MONEY-MAKER
Despite visible poverty, Jacareacanga's per capita GDP is 90,000 reais ($15,157.38), higher than Sao Paulo, Brazil's largest metropolis, a sure sign of the illegal wealth gold mining is generating.
Very little taxation is collected, even though the trading of gold is public for all to see in Jacareacanga.
President Luiz Inacio Lula da Silva has pledged to wipe out illegal mining that boomed under his far-right predecessor Jair Bolsonaro and has become harder to repress across the Amazon.
Evicting miners has become more difficult on the Munduruku territory now that tribe members are looking for gold. Tribal leaders estimate 40% of the gold mining on the reservation is carried out by Indigenous people today.
To make matter worse, local police officers have been taking bribes from a gold mining business to turn a blind eye, according to a document seen by Reuters.
In a village 10 minutes away by boat, local Chief Jonathan Kaba Biorebu said the way to stop illegal mining is to tap funding for sustainable development. He suggested selling carbon credits to companies seeking offsets for pollution.
His village has benefited from a carbon credit deal signed by the local Pusuru Indigenous Association that plans to build 40 wells for drinking water.
The association built its offices in the Jacareacanga with carbon credit funding.
But Kaba Biorebu is skeptical that carbon credit will become so common as to generate enough income to replace gold mining. The non-Indigenous population of Jacareacanga are all for legalizing the informal mining, known as "garimpo" in Portuguese.
"The income here is gold mining," said general store owner Claudemir Pereira.
"The majority of the population here depends on this, even the indigenous people, many of whom work mine for gold to survive." The government coordinator for expelling gold mining from Indigenous territories, Nilton Tubino, dismissed legalization and said big mining companies have lobbied against it. A bill to legalize informal mining is stalled in Congress.

Australia's Larvotto Resources signs antimony offtake agreement with Wogen
Larvotto Resources Limited said on Monday it had signed a binding offtake agreement with trading house Wogen Resources for sales of its first seven years of antimony output at the Hillgrove project in New South Wales.
The Australian company aims to produce 5,400 metric tons of antimony annually at Hillgrove, representing 7% of global production, it said on its website.
After China's exports limits on antimony, the Hillgrove project "has become a strategic asset being one of the world's top 10 antimony deposits with material near-term production potential in a Western jurisdiction", analysts at Blue Ocean equities said in a note in September.

MARKET MONITOR as of 07:35 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$68.38 / bbl	0.41%	-4.56%
NYMEX RBOB Gasoline	$1.93 / gallon	0.42%	-8.31%
ICE Gas Oil	$668.00 / tonne	0.11%	-11.02%
NYMEX Natural Gas	$3.18 / mmBtu	-1.00%	26.53%
Spot Gold	$2,645.05 / ounce	0.23%	28.24%
TRPC coal API 2 / Dec, 24	$121.25 / tonne	-1.62%	25.00%
Carbon ECX EUA	€68.79 / tonne	-0.06%	-14.41%
Dutch gas day-ahead (Pre. close)	€48.40 / Mwh	3.02%	51.96%
CBOT Corn	$4.34 / bushel	0.23%	-10.43%
CBOT Wheat	$5.51 / bushel	0.73%	-13.80%
Malaysia Palm Oil (3M)	RM5,035 / tonne	1.61%	35.31%
Index	**Close 02 Dec**	**Change**	**YTD**
Thomson Reuters/Jefferies CRB	340.98	-0.80%	13.13%
Rogers International	28.56	0.25%	8.49%
U.S. Stocks - Dow	44,782.00	-0.29%	18.82%
U.S. Dollar Index	106.36	-0.08%	4.96%
U.S. Bond Index (DJ)	446.34	0.02%	3.63%

China announced in August it was restricting exports of some antimony products from the middle of September, resulting in a plunge in shipments in October and an acceleration of efforts to seek alternatives outside China.
China last year accounted for 48% of global mined output of antimony, a metal used in military applications such as ammunition, infrared missiles, nuclear weapons and night vision goggles, as well as in batteries and photovoltaic equipment. The price of antimony reached a record high of over $35,000 per ton in November, a significant increase from $12,000 per ton when Larvotto acquired the Hillgrove project last December, the company said.
"With the signing of the offtake agreement, the $4 million prepayment is now payable.
The funding will support completing metallurgical testwork, finalising the DFS (Definitive Feasibility Study) due in Q1 2025 and expand ongoing exploration efforts as we look to increase Hillgrove's resource inventory," Ron Heeks, managing director at Larvotto, said in a statement.
The offtake agreement is supported by a $4 million prepayment facility with investment company Xcelsior Capital Limited, the statement said.
"Larvotto will now focus on securing a gold concentrate offtake agreement, leveraging the current strong gold concentrate market.
A thorough evaluation of all options is under way with numerous counterparties," Heeks added.

Top News - Carbon & Power

US LNG exports to Europe surge in November on higher prices

U.S. LNG exports to Europe surged in November as the world's largest producer of the superchilled gas sent more cargoes to the continent and fewer to Asia and Latin America, according to preliminary data from financial firm LSEG.
European natural gas prices climbed in November to their highest levels in two years on fears remaining Russian pipeline supplies to Europe will be halted or face further curtailment.
European natural gas prices averaged $12.90 per mmbtu in November, more than a dollar higher than $11.79 in October and higher than $12.32 in September, with the benchmark front-month contract at the Dutch TTF hub reaching 49.03 euros per megawatt hour on Nov. 22, equivalent to $14.97 per million British thermal units (mmBtu).
The United States is the world's largest LNG exporter and played a major role in 2022 after Russia's invasion of Ukraine led to sharp reductions in Europe's access to Russian gas imports.
Nearly seven of every 10 U.S. LNG cargoes headed to Europe in November as LNG exports rose to more than 7.75 million metric tons (MT), up from 7.56 MT in October, with cooler weather favoring higher output, according to LSEG data. Exports to Europe reached 5.09 MT in November or 68% of total LNG exports, up from 3.65 MT, or just under 48% of total exports recorded in October.
Asia accounted for about a fifth of total exports, according to LSEG data.
The U.K. was a major player in the market, buying .81 MT, or one in every seven cargoes sold to the continent, according to LSEG data.
With the arbitrage favoring Europe, U.S. LNG exports to Asia fell to 1.64 MT or 21% of total exports in November, from 2.67 MT or 35% in October, LSEG data showed.
There were fewer U.S. LNG cargoes destined for Latin America in November with only .58 MT sold to the U.S. neighbors in November, down from .9 MT in October, LSEG data showed.
There were three cargoes sent to Egypt for a total of .23 MT and three cargoes for a total .21 MT that were for orders with no set destination as of Nov. 30.
U.S. producers have been ramping up output as the weather cools with top exporter Cheniere Energy leading the way. On Monday, Cheniere was expected to pull over 5 billion cubic feet (bcf) of natural gas for the fifth time in seven days at its Sabine Pass, Louisiana, export plant, according to LSEG data.
Overall U.S. LNG natural gas demand averaged 13.65 bcf per day in November and could have been higher had the second-largest U.S. LNG exporter, Freeport LNG, not experience several outages in November, LSEG data showed.
With the United States expecting first LNG in December from Venture Global's 20 MTPA Plaquemines LNG plant in Louisiana and Cheniere's 10 MTPA midscale expansion project, also in the Pelican state, this month could challenge the U.S. all-time record LNG production.

LNG traders divert cargoes from Europe to Asia as eastern demand strengthens

Three liquefied natural gas (LNG) cargoes on course for Europe have been diverted to Asia to meet stronger Asian demand and as gas prices in Europe have eased, according to analysts and shipping data.
The quick change in course reflects agility of trading firms in sending LNG supplies to Europe or Asia, whichever pays, as colder weather increases competition between the two regions for the fuel used in power generation.
The arbitrage window to send U.S. and African LNG to Asia opened as Asian prices rose to $15.10 per million British thermal units (mmBtu) on Friday, the highest this year, driven by colder weather in North Asia.
The benchmark front-month contract at the Dutch TTF hub closed at 47.50 euros per megawatt hour on Friday, or a lower $14.72 per mmBtu.
The spread was enough to cover the additional spot freight costs for delivering U.S. LNG to Asia via the Cape of Good Hope instead of Europe, said Samuel Good, head of LNG pricing at commodity pricing agency Argus.
This shift is supported by record low prompt spot charter rates, he added.
Vessels that have diverted back to Asia include Shell's LNGShips Empress, BP's Aristos 1 and Mitsubishi's Diamond Gas Victoria, according to the analysts and Kpler data.

"We've seen three already, but there'll be many more with the arbitrage deemed open," Good said. LNGShips Empress departed Sabine Pass in the U.S. state of Louisiana on Nov. 11 and appeared to be heading to Asia, said Alex Froley, senior LNG analyst at data intelligence firm ICIS. It diverted to Europe in mid-November before diverting back to Asia a week later.
Meanwhile, Aristos I left Nigeria's Bonny Island on Oct. 31. It went around the Cape of Good Hope towards Asia, came back west into the Atlantic, and is now heading back east again, he added.
"We've seen at least a couple of cargoes switching back to Asia after initially diverting towards Europe, although the bulk of diversions in the last couple of weeks were towards Europe," said Froley.
Just two weeks ago, at least five LNG cargoes were diverted from Asia to Europe, drawn by higher European gas prices after Russia's Gazprom halted supplies to Austria's OMV.
"This may be related to Asian prices recovering some strength versus Europe once more, or to companies re-assessing their portfolios after the initial reaction," said Froley.
Diamond Gas Victoria departed Lake Charles in Louisiana on Nov. 16. It looked to be heading towards Europe before pivoting towards the Cape of Good Hope and is now destined for Taichung, Taiwan, Kpler and LSEG data showed.
"That said, not all cargoes heading for Europe, or planned loadings set to sail there, can be diverted to Asia with the arbitrage opening again, especially those set to be delivered to Europe's floating storage and regasification units which are tied to a regasification schedule overlapping with other terminal users," Argus' Good said.

Top News - Dry Freight

Russian wheat export prices flat for the second week amid low demand

Russian wheat export prices remained flat for the second week in a row amid low demand and export restrictions in the Russian market, analysts said.
Dmitry Rylko, head of the IKAR consultancy, said the price of Russian wheat with 12.5% protein, set for free-on-board (FOB) delivery in the second part of December, was $226 per metric ton at the end of last week, unchanged from the previous week.
The Sovecon consultancy said prices for Russian wheat with the same protein content and on the same delivery terms were at $226-229 per ton compared to $228-$231 the previous week.
Weekly grain exports are estimated at 630,000 tons, including 550,000 tons of wheat, which is a decrease from 850,000 tons of grain and 720,000 tons of wheat the previous week, Sovecon said.
The agency lowered its November wheat export estimate by 0.1 million tons to 4.1 million tons, up from 3.2 million in November 2023. There were no official confirmations of Russian wheat purchases at international grain tenders last week. Late last week, earlier than usual, Russia announced an export quota for the second half of the 2024/25 season that will be almost three times lower than the previous season's quota.
Harvesting campaign 2024 in Russia is almost complete, and sowing of grain crops for the 2025 harvest is also nearing completion. Russian farmers harvested 128.0 million tons of grain in bunker weight compared with 146.6 million tons in 2023,including 84.5 million tons of wheat compared with 94.7 million tons last year, Sovecon said in a weekly note.
Winter grains were sown at 17.6 million hectares compared to 18.6 million hectares in 2023.

Egypt PM reviews wheat procurement amid GASC's absence

Egyptian Prime Minister Mostafa Madbouly held a meeting on Monday to assess the country's wheat procurement efforts, without the participation of Egypt’s primary state grain buyer, a cabinet statement on Monday showed.
Among the attendees, however, was Brigadier General Bahaa El-Ghannam, Executive Director of the Mostakbal Misr Agency for Sustainable Development, which has recently emerged as a player in Egypt’s wheat procurement landscape and was seen as “sidelining” the General Authority for Supply Commodities (GASC).
The meeting follows Mostakbal Misr's decision to refrain from purchases during its wheat and vegetable oil procurement inquiry last Thursday.
The agency’s direct purchasing strategy, introduced late Wednesday, is a shift from the traditional tendering system managed by GASC.
During the meeting, El-Ghannam outlined efforts to "diversify wheat sources and expand local cultivation," according to the cabinet statement. Traders, however, remain wary of the transparency and execution of Mostakbal Misr’s direct purchasing model, especially after last Thursday’s unexpected price inquiry.
Established in 2022 through a presidential decree and operating under the supervision of the Egyptian Air Force, Mostakbal Misr has rapidly transitioned from land reclamation projects to a broader role encompassing commodity procurement.

Picture of the Day

A fisherman fishes in the surf along Black's Beach during a warm and sunny day in San Diego, California, U.S., December 2. REUTERS/Mike Blake

(Inside Commodities is compiled by Nandu Krishnan in Bengaluru)

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