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Top News - Oil

ANALYSIS-Big Oil's bid to woo ESG investors fails to impress

A COP28 pledge by energy majors to reduce their emissions is not enough to convince many sustainable fund managers to include the companies in their portfolios because it omits pollution from the use of oil and gas, six interviews with Reuters show.

The pledge by 50 of the biggest oil and gas companies at the U.N. climate talks in Dubai commits to reaching near-zero methane emissions by 2030 as well as net-zero carbon emissions in their energy use and production by 2050.

Those Scope 1 and 2 emissions from the companies' own operations account for about 15% of the total associated with the companies. The pledge does not address Scope 3 emissions caused by the use of the fuels the companies produce that account for 85%.

Although some of the energy companies had already made promises ahead of the COP28 announcement, several state-owned firms have newly joined in.

Investors in socially responsible, often known as ESG (environmental, social and governance), funds, said the commitments were overdue and not enough.

Asset manager Candriam said it would stick to excluding major oil and gas companies from its socially responsible funds because none was aligned with their preferred scenario for meeting the objectives of the Paris Agreement on climate change. The agreement calls for limiting global warming to within 2 degrees Celsius (3.6 Fahrenheit), and aims for a 1.5C limit.

Meeting that goal requires cutting global emissions by 43% by 2030 and to net-zero by 2050.

"The transition to a low-carbon world does not mean producing the same volume of oil and gas in a more carbon efficient manner. It means shifting away from fossil fuels as the main energy source towards low-carbon energy," Alix Chosson, lead ESG analyst at Candriam, said.

The COP28 talks, hosted by OPEC-member the United Arab Emirates, have attracted a record attendance from the oil and gas industry while delegates are divided over wording on the future of fossil fuels.

'STEP FORWARD' BUT NOT FAR ENOUGH

ESG funds have long wrestled with how to approach conventional energy producers.

Some exclude them out of scientific principle. Others say divesting has no impact and it is better to try and persuade them to pollute less, which means making them responsible for Scope 3 emissions.

Kamal Bhatia, global head of investments at Principal Asset Management, said fossil fuel companies without energy transition strategies do not "environmentally 100% meet the definition" to be included in pure ESG funds.

At an industry dinner in Dubai last week, Leon Kamhi, head of responsibility at asset manager Federated Hermes, said the companies' pledge announced at the talks was a "big step forward", but not enough.

Only one of the 25 biggest oil and gas companies has emissions targets that could be considered aligned with the Paris Agreement, according to Carbon Tracker's assessment of the targets.

The think tank said on other metrics, such as upstream investment plans or remuneration policy, the company - Italy's Eni - was not aligned with the Paris accord.

SHIFTING ECONOMICS

As war in Ukraine sent fossil fuel prices soaring, ESG fund holdings in the sector increased. At the same time, a cost of living crisis in many parts of the world shifted the focus away from sustainable investment and back towards the most easily achieved shareholder returns.

The proportion of U.S.-domiciled sustainable open-ended funds and exchange traded funds that owned oil and gas stocks hit 49% in September, against 43% three years earlier, Morningstar data show. Among conventional funds, the share with oil and gas holdings rose to 68% from 45% over the same period.

But as energy prices weaken, funds' exposure to oil and gas is also shrinking.

The average exposure to oil and gas stocks for the U.S.-domiciled funds hit 1.86% in September, versus 2% in late 2022, a faster rate of decline than for conventional funds, which had 5.3% exposure in September, according to the data.

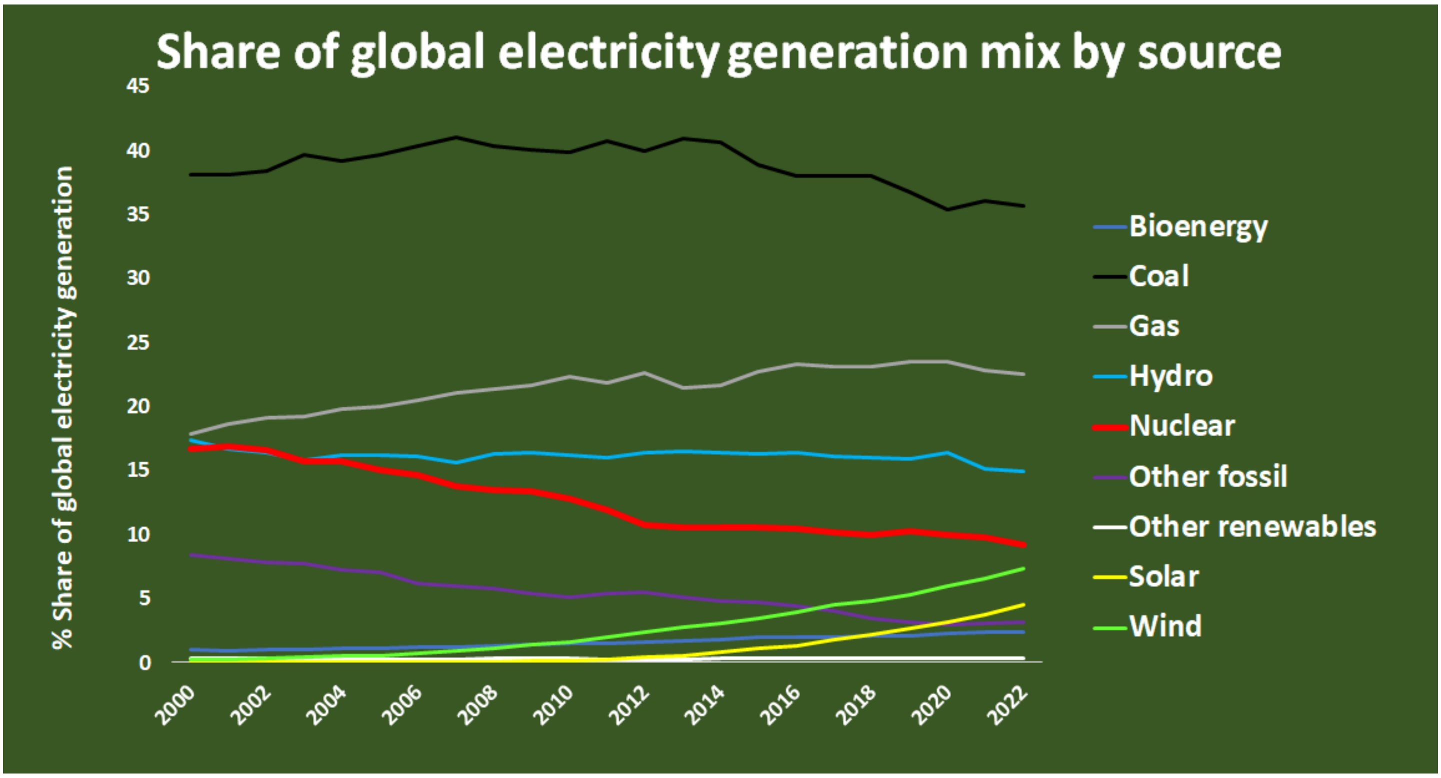
Funds marketed as sustainable in the European Union saw average exposure to oil and gas fall to 2.43% in September, from a peak of 3.33% in late 2022, the data show.

Sustainability-minded investors have achieved little when trying to influence oil giants as stakeholders, U.S. billionaire environmentalist Tom Steyer told Reuters in Dubai. "A bunch of people have bought into Exxon to try and change it, and Exxon's response was to spend [on buying a rival]," he said, referring to ExxonMobil's $60 billion deal to acquire Pioneer Natural Resources. "It's very important to recognise how hard it is to change 100-year-old corporate cultures," he said.

MISSING RENEWABLES
For some ESG investors, the case for investing in the energy giants has been weakened by the realisation "oil and gas companies are not going to become renewable energy companies", Global Head of Sustainability and Transition Strategy at U.S. bank Jefferies Aniket Shah said.
Oil and gas companies have cut spending on production in favour of shareholder payouts. Of every $10 in cash spent in 2022, less than $5 went into capital expenditure, compared with $8.6 in 2008, the International Energy Agency calculates.
By comparison, the amount spent on low-carbon capital expenditure last year was 10 cents of every $10.
That has created credibility issues the COP28 commitments are unlikely to dispel.
"If a certain energy provider is communicating 'we are now really going for a different form of source and delivery', then the trust really has to still develop," said Gunther Thallinger, chair of the U.N.-convened Net-Zero Asset Owners Alliance and board director at Germany's Allianz.

COLUMN-Oil market comfortably supplied after OPEC+ cuts: Kemp
Current crude oil prices appear to be in line with market fundamentals, to the evident frustration of Saudi Arabia and its OPEC+ partners trying to push them higher, which suggests their efforts may be in vain for now.
Despite multiple rounds of OPEC+ production cuts since the fourth quarter of 2022, global petroleum stocks are close to the long-term average, while futures prices and calendar spreads are only slightly below average.
Commercial inventories of crude and refined products in the countries of the Organization for Economic Cooperation and Development (OECD) totalled 2,841 million barrels at the end of October 2023.
OECD commercial stocks were just 19 million barrels (-1% or -0.13 standard deviations) below the ten-year seasonal average, with the deficit narrowing from 218 million barrels (-8% or -1.36 standard deviations) in March 2022.
Production restraint by Saudi Arabia and its OPEC+ allies has been more than offset by output growth from U.S. shale firms and other sources as well as softer growth in consumption.
With inventories almost exactly in line with their long-term average, futures prices would be expected to be near to their long-term average as well, which has been the case.
Front-month Brent futures averaged $89 per barrel in October 2023, in the 58th percentile for all months since the start of the century, and only slightly above the long-term average of $82, after adjusting for inflation.
Since then, front-month prices have fallen to an average of $76 (42nd percentile) so far in December 2023 as traders anticipate the market will be over-supplied with inventories rising in the first few months of 2024.
The slump in prices has been accompanied by a breakdown in the calendar spreads, as traders anticipate crude will remain readily available, replacing earlier fears about shortages.

Chart of the Day



Brent's six-month spread has fallen into an average backwardation of 26 cents per barrel (also in the 42nd percentile) from more than $5 (96th percentile) in September 2023.
While prices are understandably disappointing for producers hoping to be rewarded for production cuts, they are not obviously out of line with a market that remains comfortably supplied with plentiful inventories.

(John Kemp is a Reuters market analyst. The views expressed are his own.)

Top News - Agriculture

France sees fall in winter wheat and barley sowing after rain
France is expected to see a sharp fall in the sowing of winter cereals after heavy rain disrupted field work in the European Union's largest grain producer, the farm ministry said on Tuesday.
However, the area cultivated with winter rapeseed, France's main oilseed crop, was seen holding steady as sowing took place before the wet weather arrived, the ministry said in a crop report.
Torrential rain during autumn in France has become a concern for the grain market as it threatens to stop farmers completing planting plans and to reduce yield potential for drilled crops.
In its first sowing estimates for next year's harvest, the ministry projected the country's area sown with soft wheat for the 2024 harvest at 4.49 million hectares, down 5.1% from the area harvested this year and a four-year low for sowing.
The winter barley area was pegged at 1.31 million hectares, down 4.0%, though that would be 3.1% above the average of the past five years.
For durum wheat, the variety used in pasta, the winter crop planted area was projected at 205,000 hectares, down 10.5% from this year's harvest and 15.7% below the five-year average.
"The abundant rain recorded since mid-October across the country has prevented field work and could lead to sowing being postponed to spring," the ministry said in a report.
Wheat is almost exclusively a winter crop in France whereas barley production includes a large amount of spring crop.
Durum wheat has been lagging furthest behind in planting progress among major cereal crops, according to data from farm office FranceAgriMer.
The winter rapeseed area for 2024 was estimated to be up 0.5% versus this year's harvest at 1.35 million hectares. Rapeseed is sown earlier than cereals in late summer.
In revisions to production estimates for this year's harvest, the ministry pegged the grain maize crop at 12.78 million metric tons against 12.49 million projected last month.
The estimate was now 16.1% above last year's drought-hit maize crop but still below the five-year average.
For sugar beet, estimated 2023 production was revised up to 31.53 million tons from 31.28 million to put it marginally above last year's level.

Argentina grains sector set for key meet with new Milei government - industry source
Argentina's grains export sector is set to meet with the government of new libertarian President Javier Milei late on Tuesday after an expected package of economic reform measures is announced, a senior industry source told Reuters.
Argentina is one of the world's top exporters of processed soy meal and oil and the No. 3 for corn, though the sector has been impacted by a drought that hit the most recent harvest and tight capital controls that limit access to dollars.
The grains sector is the top source of import dollars for Argentina, which is battling triple-digit inflation and foreign currency reserves estimated at $10 billion in the red.

Top News - Metals

Marubeni expects Japanese aluminium premiums to rise in later 2024
The premiums that Japanese buyers pay for aluminium are likely to remain at $75-$95 a metric ton in the first quarter of 2024, but gradually rise after that due to tighter supply in Asia and firmer domestic demand, trading house Marubeni said on Tuesday.
Japan is Asia's top aluminium importer and the premiums for primary metal shipments it agrees to pay each quarter over the London Metal Exchange (LME) cash price set the benchmark for the region.
Japanese premiums have fallen to $97 a tonne this quarter, down 24% from the prior quarter, as demand remains dull at home and abroad.
In the negotiations for January-March primary metal shipments, one global aluminium producer has offered Japanese buyers a premium of $95 per ton, down 2% from the current quarter, to reflect slack demand and high inventories.
Marubeni, a major Japanese aluminium trader, predicted the premiums would stay between $75-95 in January-March, but will trade in a range of $90 to $150 for the rest

of 2024. "Japan premiums are expected to climb in later 2024 to reflect tighter supply in Asia due to higher imports from China," Eisuke Akasaka, general manager at Marubeni's light metals section, told reporters.
Strong demand growth in India may reduce its exports, limiting substitute supply for Russian metals for which Japan has been trimming since Moscow's invasion of Ukraine, Akasaka said.
Aluminium prices are currently trading around $2,137 per ton, their lowest in more than three months.
Marubeni forecast an average aluminium price of $2,300 in the first quarter and $2,500 for the rest of 2024 amid healthy global demand in electric vehicles and solar power, and as China is expected to see a supply shortage of nearly 1 million tons as it did this year.

Boliden plans to restart Europe's biggest zinc mine in second quarter of 2024
Boliden is planning to resume wage negotiations next month with around 650 employees at its Tara zinc operation in Ireland with a view to resuming output in the second quarter of 2024, the Swedish miner told Reuters.
Boliden put its Tara operations on care and maintenance in June due to negative cash flows after prices of the galvanizing metal hit a three-year low on Jun. 1 2023.
A restart would boost supplies of the world's fourth most used metal and potentially add to surpluses of refined zinc expected by analysts for next year.
The Tara mine, which produced 198,000 tonnes of zinc concentrates in 2022, is the largest in Europe.
"We must address operational challenges at Tara Mines," Boliden's spokesman Klas Nilsson told Reuters in an email.
Nilsson said Boliden will present the plan to the unions in January and seek to reach an agreement with them.
"If we can reach an agreement by the first week in February, our ambition is to re-open the mine in the second quarter in 2024, assuming that there is no significant deterioration in market conditions."
Tara zinc concentrates are mainly used as feedstock for Boliden's Odda zinc smelter in southern Norway, where the company is aiming to increase its production capacity to 350,000 tons in the second half of next year from 200,000 tons, the spokesperson said.
"We will commence production in the new facilities during the second half of 2024, we have however not communicated the pace of the ramp up and there will of course be a period of ramp up," Nilsson said.

MARKET MONITOR as of 07:45 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$68.18 / bbl	-0.63%	-15.05%
NYMEX RBOB Gasoline	$1.99 / gallon	-0.27%	-19.79%
ICE Gas Oil	$719.75 / tonne	-7.52%	-21.85%
NYMEX Natural Gas	$2.29 / mmBtu	-0.91%	-48.83%
Spot Gold	$1,979.96 / ounce	0.03%	8.53%
TRPC coal API 2 / Dec, 23	$104.38 / tonne	-6.80%	-43.50%
Carbon ECX EUA	€68.68 / tonne	0.69%	-18.21%
Dutch gas day-ahead (Pre. close)	€34.55 / Mwh	-4.29%	-54.28%
CBOT Corn	$4.84 / bushel	-0.21%	-28.58%
CBOT Wheat	$6.25 / bushel	-0.04%	-21.72%
Malaysia Palm Oil (3M)	RM3,688 / tonne	-1.26%	-11.64%
Index	**Close 12 Dec**	**Change**	**YTD**
Thomson Reuters/Jefferies CRB	294.12	-1.39%	-2.39%
Rogers International	26.03	-0.82%	-9.21%
U.S. Stocks - Dow	36,577.94	0.48%	10.35%
U.S. Dollar Index	103.94	0.07%	0.40%
U.S. Bond Index (DJ)	416.46	0.29%	6.11%

Top News - Carbon & Power

Nations strike deal at COP28 to transition away from fossil fuels

Representatives from nearly 200 countries agreed at the COP28 climate summit on Wednesday to begin reducing global consumption of fossil fuels to avert the worst impacts of climate change, a first of its kind deal signaling the eventual end of the oil age.

The deal struck in Dubai after two weeks of hard-fought negotiations was meant to send a powerful signal to investors and policy-makers that the world is now united in its desire to break with fossil fuels, something scientists say is the last best hope to stave off climate catastrophe.

"It is the first time that the world unites around such a clear text on the need to transition away from fossil fuels," said Norway Minister of Foreign Affairs Espen Barth Eide of the agreement. "It has been the elephant in the room. At last we address it head on."

More than 100 countries had lobbied hard for strong language in the COP28 agreement to "phase out" oil, gas and coal use, but came up against powerful opposition from the Saudi Arabia-led oil producer group OPEC, which argued that the world can slash emissions without shunning specific fuels.

That battle pushed the summit into overtime on Wednesday.

Now that the deal is struck, countries are responsible for delivering on the agreements through national policies and investments.

The proposed deal would specifically call for "transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner ... so as to achieve net zero by 2050 in keeping with the science."

It also calls for a tripling of renewable energy capacity globally by 2030, speeding up efforts to reduce coal, and accelerating technologies such as carbon capture and storage that can clean up hard-to-decarbonize industries.

EU solar power growth expected to slow in 2024-25

Growth of EU solar power installations may slow by 24% in 2024 and 23% in 2025 in the face of weaker wholesale electricity prices and problems getting permits and grid connections, an industry association forecast on Tuesday.

The European Union has a target of 600 gigawatts (GW) of solar installations by 2030, needing a significant acceleration in deployment for its transition to non-fossil energy.

The 27-member bloc raised the size of its solar fleet by 27% to 263 GW in 2023, SolarPower Europe said in a market outlook.

"The surge in electricity and gas prices and the fear of energy supply outages fuelled by the Russian invasion of Ukraine resulted in severe energy security concerns and put solar in a completely new light," it said of 2022 and early 2023.

"(But) the demand for residential solar photovoltaic (PV) slowed down in the second half of 2023," it said.

SolarPower Europe cited significantly weaker wholesale electricity prices and higher inflation for the slowdown because they take urgency out of energy security worries while raising costs for local equipment manufacturers.

Solar systems range from individual rooftop installations to those for consumption by commercial and industrial plants, and ground-mounted, large-scale utility plants.

EU capacity additions in 2023 totalled 56 GW, representing a 40% increase over the additions seen in 2022 and a new record number for the third year running, SolarPower Europe said.

The preliminary figure is based on its ongoing monitoring of capacity and market conditions and will be finalised in the first-half of 2024. Germany was in top spot, installing 14 GW, followed by Spain with 8.2 GW and Italy with 4.9 GW. Germany operates 82.1 GW of solar power capacity altogether.

Top News - Dry Freight

Yemen's Houthis warn ships in Red Sea to avoid travel to Israel

A senior official from Yemen's Houthis on Tuesday warned cargo ships in the Red Sea to avoid traveling toward Israel, after the Iran-aligned group claimed an attack on a commercial tanker earlier in the day.

The Houthis earlier said they hit a Norwegian commercial tanker with a missile in their latest protest against Israel's bombardment of Gaza, underlining the risks of a conflict that has shaken the Middle East.

In addition to avoid heading toward Israel, which the group referred to as "occupied Palestine", ships that pass Yemen should keep radios turned on, and quickly respond to Houthi attempts at communication, Mohamed Ali al-Houthi, head of Yemen's Houthi supreme revolutionary committee, said in a message on the X social media platform.

Al-Houthi also warned cargo ships against "falsifying their identity" or raising flags different from the country belonging to cargo ship owner.

The Iran-aligned group attacked the tanker, the STRINDA, because it was delivering crude oil to an Israeli terminal and after its crew ignored all warnings, Houthi military spokesperson Yehia Sarea had previously said in a statement.

The Houthis have waded into the Israel-Hamas conflict - which has spread around the region - attacking vessels in vital shipping lanes and firing drones and missiles at Israel more than 1,000 miles from their seat of power in the Yemeni capital of Sanaa.

COLUMN-US soy shipments fall off pace despite decent demand: Braun

Recent U.S. soybean export sales have been respectable, though soy shipments have dropped off normal pace in the latest couple of weeks in a way not seen since the U.S.-China trade war in 2018.

This does not necessarily mean the U.S. export program is in jeopardy as this year’s bar is already relatively low, though drought-related delays in Panama Canal traffic could be a major stumbling block as they could last well into 2024.

Data released by the U.S. Department of Agriculture on Monday showed 984,410 metric tons of U.S. soybeans were inspected for export in the week ended Dec. 7, a 10-week low and the week’s lowest since 2018.

Export inspection data is a proxy to actual shipments and is often subject to revision, but the data is the first such information available each week and provides insights on activity at various U.S. export hubs.

USDA sees total 2023-24 U.S. soybean exports at a four-year low and down 12% on the year, and as such, soybean inspections have lagged normal levels for nearly two months.

But the latest two weeks have been anomalous with soybeans accounting for about 43% of all inspected grains and oilseeds, well below the average level of around 60%. Other than 2018, that share had not dipped below 50% during these weeks in any other recent year.

Delays at the Panama Canal could directly impact U.S. Gulf exports as the passageway is a key route to Asia. Additionally, unusually low water levels on the Mississippi River have hampered barge movement toward the U.S. Gulf both this year and last year. However, inspection data does not yet suggest soybean volumes at the Gulf have deviated significantly from prior bounds. Gulf ports accounted for 49% of all U.S. soybeans inspected in the week ended Dec. 7, identical to the same weeks in 2022 and 2017 but below the average of around 56%.

Pacific Northwest ports have not picked up any of the slack, accounting for 29% of all soybeans inspected last week, even with the week’s average.

From a sales perspective, U.S. soybean export projections are not glaringly overstated. As of Nov. 30, some 68% of USDA’s full-year target had been sold, similar to the same dates in the last two years.

But it is interesting to note that the volume of unshipped soybean commitments actually rose during November, the first such instance since 2007, as well-above average monthly sales combined with leaner shipments.

Both the volume of outstanding soybean sales and the ratio of cumulative exports to total sales are still within normal range, so last month’s odd trend is not yet alarming. But it could be worrisome if the unshipped ledger continues to grow without a matching effort in shipments. U.S. grain vessels have been increasingly using the Suez Canal route to Asia instead of the Panama Canal, adding up to two weeks in delivery time and increasing costs, potentially placing U.S. soybean orders at risk of cancellation in favor of upcoming Brazilian supplies.

(Karen Braun is a market analyst for Reuters. Views expressed above are her own.)

Picture of the Day

Crude oil tanker Otis delivers crude oil for Dangote Refinery in Lagos, Nigeria, December 9. REUTERS/Seun Sanni

(Inside Commodities is compiled by Archak Sengupta in Bengaluru)

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

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