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Top News - Oil

Global oil refiners crank up output as margins recover to pre-COVID levels

Oil refiners are ramping up output to meet a synchronised uptick in demand across Asia, Europe and the United States, but plant maintenance and high natural gas prices will constrain supply in the fourth quarter, company officials and analysts said.

This comes as profits for producing ground transportation fuels such as diesel and gasoline have rebounded globally for the first time since the start of the pandemic, as countries gradually emerge from COVID-19 movement restrictions.

A coal and natural gas crunch across Europe and Asia, which has forced some power generators to burn kerosene, diesel or fuel oil and stock up ahead of the peak winter heating demand, is also supporting global oil prices.

Global crude and key refined product prices have risen more than 60% in 2021 to multi-year highs.

"Refining margins have finally found some ground," said Sri Paravaikkarasu, director of Asia oil at energy consultancy FGE, as she forecast a "big increase" in crude runs this winter.

The increase will be "led by India, followed by South Korea, while Taiwan and Japan will increase runs as well, as refiners try to take advantage of the current high margins", she added.

Asia's crude runs are expected to reach 29.5 million barrels per day (bpd) in the fourth quarter, versus 29.1 million bpd a year ago and 30.3 million bpd over October-December in 2019, Paravaikkarasu said.

Taiwan's Formosa Petrochemical Corp, one of Asia's top fuel exporters, said it plans to process 400,000 bpd in November, up from 370,000-380,000 bpd in October.

That is expected to rise to 460,000 bpd, or 79% of Formosa's capacity, in December and January 2022, spokesman KY Lin said.

"The increase in output won't happen so quickly as we have maintenance at a unit in October," he noted.

In South Korea, a major refiner plans to boost output in the fourth quarter by about 5% versus the third quarter, a source familiar with the matter said, declining to name the company.

An executive at India's Hindustan Petroleum Corp Ltd said the company's group refineries were operating at full capacity.

REFINING MARGINS

Singapore complex refining margins, a proxy for refiner profitability in top oil consuming region Asia, hit their highest since September 2019 above $8 a barrel this month.

The margins had turned negative last year, plumbing a record low in May, as the pandemic eroded demand.

In Northwest Europe, refining margins topped $9 last week, the highest since April 2020, while U.S. Gulf Coast refining margins are currently around $14, up nearly three-fold from the same period a year ago, Refinitiv Eikon data shows.

The spike in margins comes against the backdrop of a steady drop in inventories across key markets.

Combined oil product inventories from the United States, northwest Europe, Fujairah, Singapore and Japan fell to their lowest since 2014 as of Oct. 14, according to FGE.

Hurricane Ida disrupted operations in the world's top refiner, the United States, in the past two months, while No. 2 refiner China has curbed exports as part of reforms.

Consultancy Energy Aspects cut its China crude runs forecast by 400,000 bpd to 15.18 million bpd for the fourth quarter, as new refiner Shenghong Petrochemical has delayed its start-up and a lack of product export quotas capped state refiners' output.

"It's increasingly likely that the government will not hand out additional product export quotas, which adds more downside risk to Chinese runs for the rest of the year," Energy Aspects analyst Liu Yuntao said.

Even so, China's crude throughput is still seen up from 14.63 million bpd in the third quarter.

The International Energy Agency sees global crude throughput at 79.6 million bpd in fourth quarter, up from 77.9 million bpd in the third quarter, led by the United States and Asia.

NATURAL GAS PRICES

However, like refinery maintenance, high natural gas prices too are expected to slow the ramp up in runs, executives said.

In Europe, record natural gas prices are forcing refiners to adjust operations to limit their exposure to costly inputs, such as hydrogen which requires natural gas as a feedstock and is used by refiners to remove sulphur from oil products.

"We are impacted by the current high energy prices just like any other consumer of natural gas and electric power," a

spokeswoman for refiner Varo Energy said.
"To ensure we can continue to supply our customers, we have adjusted our operations to minimize our natural gas consumption whilst preserving our ability to supply products."
In the United States, crude runs are expected to drop for a second straight month in October to 15 million bpd, as the sector starts autumn maintenance, Energy Aspects said in a note.
"However, with refinery margins up by nearly $9 y/y and product stocks at the low end of their normal range, refinery runs could surprise to the upside during October," it added.

U.S. crude, fuel stocks dip, tightening supply as demand remains strong -EIA
U.S. crude and fuel inventories tightened further last week, as supplies of gasoline hit a two-year low and inventories at the largest U.S. commercial storage hub dropped to a three-year low, the Energy Information Administration (EIA) said on Wednesday.
Crude inventories fell by 431,000 barrels in the week to Oct. 15 to 426.5 million barrels, compared with analysts' expectations in a Reuters poll for a 1.9 million-barrel rise.
Crude stocks at the Cushing, Oklahoma, delivery hub fell by 2.3 million barrels to 31.2 million barrels. That's the lowest level since October 2018, and points to tightness in the market that may take some time to alleviate.
"It makes no economic sense to keep excess inventories at Cushing when you can sell it in the prompt month. I expect that the draws at Cushing are going to continue," said Andrew Lipow, president of Houston-based consultancy Lipow Oil Associates.
Futures contracts are currently in backwardation, where later-dated contracts trade at a lower price than the current contract. That encourages companies to sell oil immediately rather than keep it in storage.
The decline in stocks occurred even as refinery crude runs fell by 71,000 barrels per day in the last week. Refinery utilization rates fell by 2 percentage points as those facilities process fewer barrels in the midst of the traditional maintenance season.
Despite that, though, the strength in overall demand for products could mean refiners have to ramp up activity before long again. U.S. gasoline stocks fell by a more-than-expected 5.4 million barrels in the week to 217.7 million barrels, the lowest since November 2019, the EIA said.
Overall product supplied rebounded in the most recent week, with the four-week average of supply from refineries - a proxy for customer demand - hitting 20.9 million barrels per day, less than 1% off of 2019 levels.
Oil prices rebounded from losses after the decline in inventories. U.S. crude futures were up 9 cents to $83.05 a barrel, while Brent were down 3 cents to $85.05 a barrel as of 10:35 a.m. EDT (1435 GMT).
Distillate stockpiles, which include diesel and heating oil, fell by 3.9 million barrels, putting their stocks at their lowest levels since April 2020.

Top News - Agriculture

Rains delay wheat planting, autumn grain harvest in China - ministry
Constant rains in recent weeks have delayed wheat planting in main production regions in China, a government official said on Wednesday.
China had completed 26% of winter wheat planting across the nation by Oct. 19, slower by 27 percentage points than normal years, due to constant rains since September, according to Pan Wenbo, head of the planting management division under the Ministry of Agriculture and Rural Affairs.
The ministry will take "extraordinary measures" to tackle the "unfavourable impact and austere challenges" the rains have posed for harvest and planting, Pan said during a press briefing.
China's cabinet, the State Council, on Wednesday said authorities would work to ensure a "bumper" summer grain harvest next year, state broadcaster CCTV reported.
Measures taken to achieve this include doing a good job in drying and stockpiling grain, as well as in autumn and winter planting, CCTV said in its evening newscast after a State Council meeting chaired by Premier Li Keqiang.
Other measures include speeding up drainage of farmland, increasing supply of fertiliser and pesticides, and ensuring supply of electricity and diesel for grain drying, the report said, adding flood-hit areas will be entitled to disaster relief funds.
Pan's comments came as Beijing renewed a policy focus on food security following the COVID-19 pandemic and after prices of corn, the other main grain crop in China, soared on falling inventories and output, pushing up feed use of wheat and grains imports to record high levels.
"It is still hopeful that we will win a bumper harvest (of wheat next year) as long as we can plant before winter and follow up with proper management measures in the spring," Pan said.

Late planting would affect growth, while too much moisture in the land would cause more diseases for the crop, Pan added.
China has raised the minimum purchase price for wheat in 2022, part of an effort to enhance grain security, by bolstering farmers' interest in growing the grain.
The rains have also delayed harvest of autumn grains, which mainly include corn, soybeans and middle-late season rice, by 4 percentage points compared with normal years, and pushed up cost, Pan also said.
Heavy rains hit the corn harvest in northern China and damaged quality of the new crop, leading a government think tank to lower its estimates on China's 2021/22 corn output.
The rains mostly affected Huang-Huai-Hai river areas and northwestern China with limited impact on other main production regions including northeastern and southern China, Pan added.
Autumn grains output in total was set to rise, thanks to increased acreage, and more planting of high-yield corn, according to Pan.

COLUMN-High fertilizer costs not the only threat to 2022 U.S. corn acres -Braun
It is common for the debate over next year’s U.S. corn and soybean plantings to begin before harvest is complete on the current crops, though surging production costs are muddling that discussion despite 2022 prices sitting at nine-year highs for the date.
High-priced competitor crops may also increasingly enter the equation next spring, meaning industry participants may be prone to overestimating the total number of acres devoted to corn or soybeans.
Soaring fertilizer prices in particular are causing analysts to temper expectations for next year’s corn area. Costs for nitrogen-based fertilizers, predominantly used on corn, are around double the year-ago levels, and some chemicals have reached all-time highs.
Global supply-chain disruptions add more complexity since a portion of the ingredients needed to make crop chemicals come from overseas. Even worse, China, a key supplier of fertilizer and related ingredients, has recently imposed measures that may greatly curb those exports.
To combat high input costs and retain acres, corn prices must maintain or increase their relative advantage versus soybeans into the spring, though that is the case every year. If energy prices stay high, then grain, oilseed and fertilizer prices are also likely to remain elevated and vice versa.
High fertilizer prices by themselves may not necessarily mean corn is unprofitable or less profitable than soybeans as many other factors such as projected prices and expected yields must be considered.
Producers that have already locked in some of these costs may be concerned about the actual availability and ability to receive the products. These logistical issues plus competing crop profitability could loom as large as the fertilizer prices themselves.
If next year’s corn and/or soybean acres disappoint versus expectations, then analysts either overestimated the total pool of acres or underestimated the allure of alternative crops.

RETURN TO BASICS
Despite increased uncertainty ahead of next year’s growing season, some analyses have held up well during times of both high and low prices and high and low production costs. New-crop futures prices are usually the best starting point and can provide insight as early as today.
The current value of November 2022 soybean futures versus December 2022 corn would not support soybean acres hogging a large share of the combined corn and soybean area. The ratio of beans to corn can be a profitability indicator, with values of 2.5 or above solidly favoring soybeans.
That ratio is averaging around 2.34 so far this month, which historically suggests corn acres should be dominant in next year’s corn-soy mix by about 53% for corn and 47% for soybeans. But some recent ideas suggest the split may be closer to even. I asked Twitter earlier this week to vote on 2022 planted acreage ranges for U.S. corn and soybeans. The results for corn suggested something around the five-year average of 90.5 million acres, down from this year’s 93.3 million. Voters were much more favorable to soybeans and placed those acres at the top end of the offered range, implying close to 90 million. Despite corn’s current price edge, the poll reflects the fear of high input costs pushing corn acres toward beans.
Only in 2009 and 2016 did soybeans steal a larger share of the mix when the price ratio in the previous fall favored corn. Those outlier years were associated with very large year-on-year declines in total wheat plantings, both by more than 4.5 million acres.

WHEAT AND OTHER CROPS
Current market assumptions are that U.S. wheat acres will rise in 2022 given tighter global supplies and strong prices.

That is a good bet considering next year's insurance guarantees to U.S. farmers.
The projected 2022 soft wheat insurance prices were set using the average price of CBOT September 2022 wheat futures between mid-August and mid-September. That landed at $7.16 per bushel, a nine-year high.
That is up 28% on the year, the largest annual increase in 11 years. For hard red wheat, the Kansas City July 2022 wheat contract averaged $7.08 during the same period, also a nine-year high and up 44% on the year. Movements in U.S. wheat plantings correlate well to the year-on-year changes in insurance prices.
Insurance prices for corn, soybeans and other winter wheat competitors, like spring wheat and cotton, will be set in February. September 2022 Minneapolis wheat is currently trading at nine-year highs for the date.
December 2022 cotton futures are at 10-year highs, about a third stronger than the year-ago levels.
The year-on-year acreage moves in corn and soybeans have not always matched up with whether the insurance prices were up or down, and that may be partially related to the expected profitability of competitor crops.

Top News - Metals

Rio Tinto announces bold $7.5 bln spend to halve carbon emissions by 2030; shares fall
Anglo-Australian miner Rio Tinto announced on Wednesday a $7.5 billion plan to reduce carbon emissions by 50% by 2030, a reduction three times greater than its previous target, but shares fell as investors reacted to the higher spend.
As steel and iron ore producers continue their push to cut carbon emissions in line with global climate commitments by 2050, Rio said it sought to halve its scope 1 and 2 carbon emissions - direct emissions by the company and certain types of indirect emissions, respectively - by the end of the decade.
Rio brought forward its target to 2025 for a 15% reduction in emissions from 2018 levels, five years faster than it had previously targeted.
"It's a massive shift but it's the future for Rio Tinto," Chief Executive Jakob Stausholm told a media briefing ahead of an investor day conference and presentation.
To meet this goal, Rio will increase its power from renewables, boost research and development spending on decarbonisation pathways and also double spending on growth in minerals critical to the energy transition to about $3 billion a year from 2023.
Shares were down 3.1 percent in London.
"This transition towards more spending at a time where the prospects for iron ore cash generation look challenged will further complicate this transition, as this will happen in a lower-yield environment," said RBC in a note.
"So although we think this is the right strategy it may take a significant amount of time for the shares to reflect this."
Rio raised its capital spending plans for 2022 to $8 billion from $7.5 billion and said it expected to spend $9 billion for 2023, and $10 billion for 2024. RBC had consensus estimates for 2023 spending at $6.8 billion and $5.8 billion for 2024.
Stausholm said Rio was also taking a number of "tangible actions" towards helping its customers reduce their emissions. The world's biggest iron ore miner said this month it is trialing new technology that would use biomass in place of coking coal in the steelmaking process to cut industry carbon emissions, and it has also said it is looking at hydrogen.
But Rio did not commit to bigger reductions for its customer emissions, currently targeted at 30% by 2030.
Rio's new targets blow past those of rival BHP Group, which targets reducing its operational emissions by 30% by 2030, but still falls short of Fortescue Metals Group's goals.
"Rio Tinto has finally joined the party with some very ambitious emissions reduction targets, showing BHP and its shareholders what climate action for a diversified miner should look like," said activist investor the Australasian Centre for Corporate Responsibility. Fortescue committed earlier this month to achieve net zero emissions by 2040 from the operations of its steel making customers, by boosting hydrogen and green energy production to cut its carbon footprint.
To decarbonise its iron ore operations, Rio plans to deploy 1 gigawatt (GW) of solar and wind power generation, replacing gas-fired power generation. It also intends to decarbonise its Boyne Island and Tomago aluminium smelters in Australia, which will require an estimated 5 GW of solar and wind power generation. Rio's aluminium business accounts for some 70% of its direct and indirect emissions.
The reductions compare to a 2018 baseline of 32.6 million tonnes of carbon dioxide equivalent from Rio's share of operations.

Trafigura says it and other traders ordered LME copper withdrawals
Trafigura was not the only commodities trader to order withdrawals of copper inventories from the London Metal Exchange (LME), it said on Wednesday, a day after the exchange took action to calm a volatile market amid shortages.
The premium of the LME cash copper contract over the benchmark three-month futures spiked to a record of over $1,000 a tonne on Monday as available inventories hit the lowest levels in over two decades.
The LME, the world's oldest and largest market for industrial metals, said on Tuesday evening that it was revising rules

to increase liquidity and allow short position holders caught up in the tightness to defer delivery.
Neither Trafigura nor the LME directly referred to a Bloomberg article on Tuesday that named the commodities trader as the main driver of large cancellations, or orders to withdraw copper from LME warehouses.
On-warrant LME copper stocks, those not earmarked for delivery, had tumbled by 94% from mid-August to 14,150 tonnes last week, the lowest since at least 1998.
"We have communicated in advance with the LME before cancelling warrants in full transparency, as usual," Trafigura said in a statement. "Trafigura is one of a number of market participants who have taken similar action in recent weeks."
The trader drew down inventories to ship to end users, mainly in Asia and Europe, it added.
The copper premium had fallen to $338 by Tuesday's close, but was still high by historic standards and was likely to spur deliveries into LME warehouses, analysts said.
"We could see deliveries at some pretty unusual locations, warehouses that haven't seen a copper cathode for the best part of a decade," said analyst Oliver Nugent at Citi.
A good deal of copper was stuck in transit, which could also be delivered once it emerges from bottlenecks, he added.
LME copper surged to a five-month peak of $10,452.50 a tonne on Monday, having gained about 15% in around two weeks, largely on worries about low inventories and a global energy crunch. It was down 1.6% at $9,991 on Wednesday.
Higher energy prices and inflation may put pressure on copper in coming months, Nugent said. "This is an uncomfortable rally. A lot of the things that are driving metals prices higher are inherently not good for global growth."

Top News - Carbon & Power

EU leaders to lock horns over response to energy price spike
EU leaders on Thursday will debate their response to soaring energy prices, which have exposed familiar rifts over the bloc's climate change goals and divided countries on whether the price crunch warrants an overhaul of EU energy market rules.
EU country leaders will discuss a "toolbox" the EU Commission published last week, which outlined the national measures governments can take and said Brussels would look into longer-term options to address price shocks.
Most EU countries have already drawn up emergency action plans to shield consumers from the price spike, including energy tax cuts and subsidies for poorer households, and on Thursday leaders will encourage others to follow suit.
A draft of their summit conclusions, seen by Reuters, invites countries to urgently use the toolbox "to provide short-term relief to the most vulnerable consumers and to support European companies".
Longer-term measures, however, are more contentious.
"Member states are very split," one EU diplomat said. "There is no common vision on what to do except follow the toolbox and use national measures to address vulnerable consumers - but beyond that, there is absolutely no agreement."
European gas prices have hit record highs as tight supply has collided with economies emerging from the COVID-19 pandemic, pushing up consumers' electricity bills amid record-high CO2 prices and lower-than-expected gas deliveries from Russia.
Countries including Spain, Italy and Greece want the EU to respond with regulatory changes. They propose joint gas buying among EU countries to form strategic reserves, and decoupling European electricity prices from the cost of gas-fuelled generation.
Others, including Germany and Belgium, are wary of overhauling regulations in response to a short-term crisis. The Commission said gas prices were expected to stabilise at a lower level by April.
The draft conclusions for the summit did not endorse any specific actions, and Thursday's talks will likely pass the issue on to EU energy ministers to wrangle over at an emergency meeting on Oct. 26.
A preparatory note ahead of that meeting, seen by Reuters, said ministers would debate "what further measures at EU and Member State level, including the use of EU financial tools, could be envisaged".
The price spike has also stoked familiar tensions between EU countries over the bloc's policies to fight climate change, with Poland this week calling for Brussels to change or delay some planned green measures.
Two EU diplomats sad Poland was isolated in that view, which is at odds with other countries that say high gas prices should speed up Europe's shift to renewable energy to reduce countries' exposure to volatile fossil fuel prices.

ANALYSIS-From abandoned fields to salt caves, Gazprom's gas storage is almost full
Gazprom's domestic storage is almost full, giving the Russian state gas giant leeway to increase exports this winter, officials and industry experts say, potentially encouraging news for Europe as it toils under surging power prices.
Russia, whose gas production and exports to European Union are already near record highs, said last week it needed to finish filling its own gas storage reserves before it could increase supplies to Europe's spot market.

Energy Minister Nikolai Shulginov said on Wednesday that domestic gas storage was 97% filled, without disclosing the specific figure. Ronald Smith, senior oil and gas analyst at Russia's BCS brokerage, estimates that the storage stands at around 69 billion cubic metres (bcm), close to the company's publicly disclosed target full-storage level of 72.6 bcm.
Gas markets in Asia and Europe have sky-rocketed this year, with benchmark Dutch gas hub spot prices jumping by 365% since the year-start, fuelled by low inventories and surging demand as economies recover from the COVID-19 crisis.
This has put Gazprom, Europe's biggest gas supplier, front and centre, with its exports rising by 13% and production up 17% since the start of the year.
The former Soviet gas ministry, which became a state company in 1990s, runs a network of 23 gas storage sites in various locations; from abandoned gas fields to salt caves, securing between 20% to 40% of all domestic supply in the heating season.
If storage is full by Nov. 1, then "unlike Europe, Russia will start the withdrawal season at a healthy storage level and should have some flexibility to ramp up gas sales to Europe," said Marina Tsygankova, an analyst with Refinitiv.
"The question is if Gazprom wants to do it before Nord Stream 2 is certified," she said, referring to the undersea gas pipeline from Russia to Germany opposed by a number of countries, including Ukraine and Poland, as it could deprive them of transit fees.
While finished and now being filled with the gas, the Nord Stream 2 is awaiting the go-ahead from Germany before it can start transporting supplies.

WATCH THE WEATHER
European inventories are about 14 bcm short of gas, including 8 bcm in Gazprom-linked facilities, partly due to Gazprom booking only a fraction of export capacity via Ukraine and Poland, said Dmitry Marinchenko, senior director at Fitch ratings agency.
"Until the end of the year, Russia should probably be able to provide at least an additional 5-10 bcm. November would be the right time to ramp up deliveries as in December Russia's own consumption will increase," he said.
Russia has said it would prioritise its home market over exports and Gazprom's supplies domestically have already risen by 17% so far this year, or by 26 bcm - equal to what Poland consumes annually.
But even with temperatures lower than usual across Russia last year, which Gazprom predicts may happen again this heating season, it used only 60.6 bcm from the storage at home, leaving another 12 bcm underground untouched.
Nonetheless, Smith of BCS brokerage cautioned that the Russian weather, and its influence on domestic consumption, could play a role in Gazprom's export plans.
"Gazprom's ability to export to Europe will be highly dependent upon Russian weather. September was cold, and October doesn't appear to be warm," he said.
And even if Russia increases supply, it's unlikely to have an immediate impact on European spot prices, analysts at the Sweden-based bank SEB said, as prices at the European gas market are linked to the globally set LNG price.
"We see that more natural gas from Russia would only calm the nerves a bit – and that the TTF will still depend on the global LNG price both now, for the coming winter, and in the years to come," SEB said.

Top News - Dry Freight

Russian trader Demetra supplies 60,000 t of wheat to Algeria
Demetra, one of the largest grain traders in Russia, has supplied 60,000 tonnes of wheat to Algeria, it said in a statement on Wednesday.
It was the first major supply from Russia to Algeria since 2016.
It was also to this destination for Demetra, controlled by Russia's second largest bank VTB
Two vessels were sent from Russia's Black Sea port of Taman to two ports in Algeria in September, and the cargo has already been accepted by the buyer, Demetra said.
Algeria was one of the few major wheat importers to which Moscow had no access until October last year, when Algeria relaxed its terms regarding bug damage. That made it possible to offer wheat from the Black Sea with higher protein.
"Algeria traditionally imports grain from France, Germany, Latvia, Lithuania and Argentina and has high quality requirements," Roman Kron, head of Demetra Trading, said in the statement.
"Diversifying our supply markets is part of our growth strategy," he said. Demetra Trading is part of a holding with the same name, in which VTB consolidated stakes in several Russian Black Sea grain export terminals and Russia's largest grain railcar owner Rustranscom. Demetra Trading is Russia's third largest what exporter.

Jordan buys about 60,000 tonnes wheat in tender - traders
Jordan's state grains buyer purchased a final total of 60,000 tonnes of hard milling wheat to be sourced from optional

origins in a tender which closed on Wednesday, traders said. It was all bought from trading house Cerealcom Dolj at an estimated $365.00 a tonne c&f for shipment in the second half of January 2022, they said.
No more purchases were expected despite negotiations continuing after the first purchase, traders said.
The high number of five trading companies participated in the tender.
Along with Cerealcom Dolj, participants were believed to be CHS which offered an estimated $376.75, Cargill $384.17, Ameropa $370.40 and Nibulon $379.00 all per tonne c&f, they said.
Jordan has cancelled several wheat tenders in recent weeks among low participation by trading houses.
The tender is seeking optional-origin wheat for shipment in several periods in 2022 between mid-January and mid-March.
A new tender is expected to be issued in coming days closing on Oct. 27 seeking shipment in March and April 2022, traders said.