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# Argus Monthly Sulphur Outlook

## Outlook

### The month ahead

Prices will continue to edge down as the final month of 2023 progresses. Softening will be more pronounced in some fob markets because of rising freight rates, but a lack of liquidity will stop prices dropping steeply.

### The next 3-6 months

By mid-first quarter Chinese importers should be starting to look for more usual volumes as phosphate export restrictions will likely ease in early second quarter. But new global sulphur supply capacity will still be ramping up, and this will allow our balance to remain in surplus across the second quarter and allow further price softening.

### 12 months forward

We will once again have entered the winter months and sulphur trade will be winding down for the festive season, as well as the general lull for the fertilizer sector. But, with competition from the biggest consuming market limited, it could be the prime time for other metals and industrial sulphur consumers to step in and lock in some last minute tonnes to build stocks ahead of the start of first quarter 2025 contract negotiations.

**Forecast sulphur prices** *$/t*

| | Dec | Jan | Feb | 1Q24 | 2Q24 | 3Q24 |
|---|---|---|---|---|---|---|
| China cfr | 38-110 | 35-100 | 35-100 | 33-98 | 29-88 | 35-83 |
| Brazil cfr | 110-115 | 100-110 | 98-108 | 95-105 | 82-90 | 78-88 |
| North Africa cfr | 90-105 | 85-100 | 85-100 | 82-97 | 65-84 | 60-78 |
| Middle East fob | 78-86 | 70-77 | 67-75 | 66-73 | 52-62 | 47-56 |
| Black Sea fob | 43-58 | 45-62 | 45-60 | 43-59 | 35-51 | 26-44 |
| Vancouver fob | 74-84 | 66-76 | 67-77 | 64-74 | 54-63 | 48-57 |

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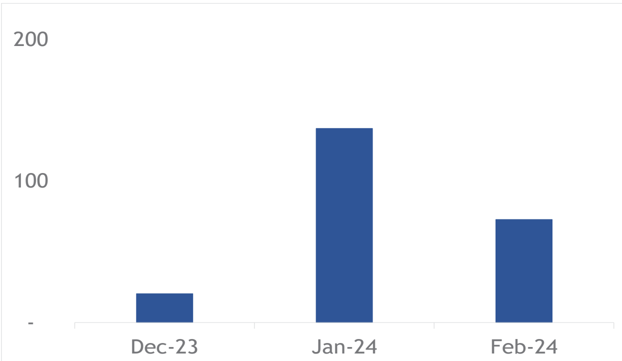
**Global sulphur balance** *mn t*



# Outlook summary

- China imposes more phosphate export restrictions
- The majority of spot demand covered for remainder of 2023
- OCP seeking up to 1mn t of sulphuric acid for 2024
- Firming phosphate prices to support raw material affordability

| Price comparison | | | | | $/t |
|---|---|---|---|---|---|
| | Nov avg | Dec | Jan | Feb | Sentiment |
| China cfr | 40-112 | 38-110 | 35-100 | 35-100 | ▼ |
| Brazil cfr | 114-117 | 110-115 | 100-110 | 98-108 | ▼ |
| North Africa cfr | 90-108 | 90-105 | 85-100 | 85-100 | ▼ |
| Middle East fob | 95-99 | 78-86 | 70-77 | 67-75 | ▼ |
| Black Sea fob | 43-65 | 43-58 | 45-62 | 45-60 | ▼ |
| Vancouver fob | 84-86 | 74-84 | 66-76 | 67-77 | ▼ |

** short term*

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The biggest news to hit the sulphur market over the past month has been the further phosphate fertilizer export restrictions announced in China. The Chinese government has suspended export inspections for DAP, MAP and TSP with the hope of easing domestic prices as preparations for the next application season begins. Almost immediately after the news was announced domestic Chinese sulphur prices dropped and import interest is at a bare minimum, if existing at all, because of high domestic inventories and hesitant end-user demand. Now all eyes are on China to see just when the country's buyers will return to the international market, particularly as there has been no timeframe announced in relation to the end of these further restrictions. Our phosphate analytics team anticipate the restrictions will remain until the start of the spring application season in March-April, which translates into a reduced demand for sulphur and therefore likely imports until at least mid-February. This is now one of the biggest drivers of our softening sulphur price forecast.

On top of this our softening forecast is driven by a dearth of spot demand in other markets. India, Indonesia, Brazil, South Africa and Tunisia, to name but a few, are either all covered for the next few weeks or even for the rest of 2023, and this is adding further pressure onto the supply side. It is more than likely global consumers will wait as long as possible to step into the spot market for first quarter deliveries, in part to ensure they can secure tonnes at the lowest price possible before the need is too great, and to put pressure on suppliers ahead of the start of first quarter contract negotiations.

The other buyer the market is watching with great interest is OCP, as the company has been locking in significant volumes of sulphuric acid for fourth quarter delivery and is understood to be seeking up to 1mn t for delivery in 2024. This not insignificant volume has the ability to displace sulphur consumption and limit the growth in sulphur imports year-on-year for 2024, even though the company is starting up new burner capacity. But we do expect the majority of these deliveries will be for earlier in 2024 rather than later, because fertilizer granulation capacity is already ramping up, while associated burner capacity is ramping up at a lag. But this is doing nothing but add pressure to the soft price sentiment in the sulphur market in the early part of the new year.

Yet it must be noted that there are two factors which are slowing down the softening in our forecast and preventing a steep price correction. Firstly, suppliers have committed volumes to contract and have also sold spot cargoes forward. They are therefore limiting exposure to a market with limited demand and ever-reducing buyer price ideas. But it is the fallout of the Chinese export caps which is having the most notable influence. As Chinese phosphate exports are restricted, prices are set to increase across the first quarter which, in turn, should improve raw material affordability for phosphate fertilizer producers. Indeed this may not be the case for China, but other producers will be able to benefit from higher prices and therefore increased affordability. There have been comments that improved affordability could potentially support a reversal in sulphur pricing and encourage firming, but as Chinese exports are expected to normalise in the second quarter and new sulphur production capacity is coming on stream, we consider this unlikely for now.

# Regional outlook

## Asia-Pacific

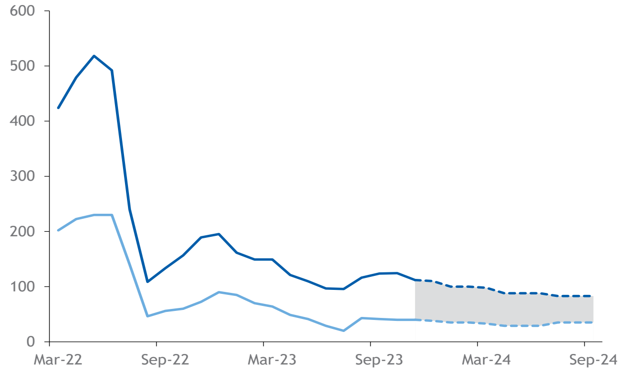
The news from China that phosphate export inspections are suspended and therefore exports of processed phosphates are even more restricted has hit the sulphur market in the country hard. Importers and consumers have little appetite to import the product in any form as the end product export market is even more limited to them now than it was just a few short weeks ago. As a result, consumers are continuing to turn to domestic tonnes and port inventories to cover demand on a more hand-to-mouth basis, and while these limitations are in place this pattern will remain.

China's domestic phosphate application season commences in March-April, so we expect that export restrictions will lift towards the end of the first quarter of next year when domestic demand is covered. If this is to be the case then Chinese phosphate importers could be out of the international sulphur market until at least mid-February for any notable volumes. The only potential supportive price point to come from these restrictions could be that limited Chinese phosphate exports will push up phosphate prices, which will in turn improve sulphur and general raw material affordability in the wider global market, allowing for a slow erosion of prices rather than a sudden and steep correction.

In India the last lingering spot demand for 2023 is still expected to emerge from the country's sugar sector and be led by Andhra Sugars. A spot purchase tender is set to be announced imminently. But, as these buyers are smaller and on the west coast of the country the price, if the cargo is concluded, will not necessarily be indicative of prices for key fertilizer producing buyers. Indian import demand should surface in the new year, particularly as new phosphate production capacity is continuing to ramp up and DAP inventories in the country are eroding. But, with the DAP nutrient-based subsidy having been slashed for the second half of this fertilizer year and the first quarter phosphoric acid import price yet to be set, it will be the best arbitrage opportunities that dictate just how much sulphur will be sought. But what does seem to be clear is that India's buyers are turning more and more to contracts rather than spot business.

There could be one more spot cargo left for Indonesia's importers to secure, but this would be most likely for second-half December loading and, with market sentiment soft and last spot business concluded below $115/t cfr, there is nothing but further softening expected. Buying strategy for 2024 is now to be closely monitored as Indonesia's buyers were the main driver of firming prices at the start of this

**China cfr price forecast range** *$/t*




year. But buyers are definitely more shrewd and clued up to market dynamics now, and reports continue that consumers are seeking out a certain level of contract supply. We expect Indonesia will import just over 2.1mn t of sulphur in 2024, nearly 400,000t below 2023 levels as new smelter capacity ramps up in the country.

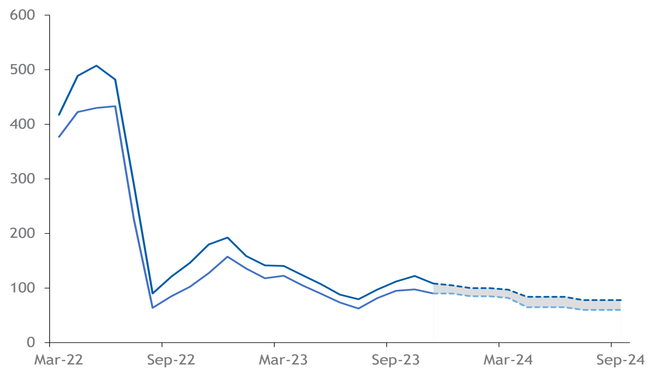
## Africa

When it comes to buyers east of Suez all eyes are on China, west of Suez all eyes are on Morocco and of course specifically OCP. The company is estimated to pick up just over 6.5mn t of sulphur this year, but that will only grow to 6.7mn t next year. That is partly because of the interest noted in sulphuric acid imports in the latter part of this year, and the enquiries now being made for 2024 sulphuric acid deliveries. The company is estimated to import 780,000t of acid this year and is understood to be looking for between 800,000-1mn t for 2024 delivery, despite new burner capacity ramping up next year. We anticipate at present that more acid will be delivered in the first part of the year as the new burner ramps up operations, but nonetheless it will cap any anticipated rise in OCP's sulphur import growth for 2024. Also, we do continue to anticipate that OCP's sulphur spot demand will lack for the rest of this year and be limited in the first quarter, as poor weather and seasonal swells at Jorf Lasfar port restrict all activities.

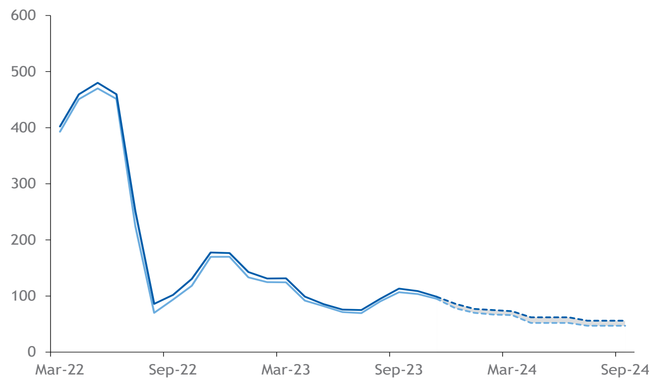
When it comes to other north African importers, Egyptian buyers are almost continually bidding lower for tonnes, with Russian product encouraging bids to slip to the $90s/t cfr for granular product, which is in turn forcing mainstream suppliers to reduce price offers. Small parcels will continue into the country across the rest of 2023, but prices will slowly erode. In Tunisia no spot demand is forecast to emerge before the year-end, as downstream production rates are continuing to lag.

When it comes to southern Africa, demand from buyers

**North Africa price forecast range** *$/t*




**Middle East fob price forecast range** *$/t*




in the DRC and South Africa is covered for now, and port congestion will also delay any demand that could emerge in the near-term as demurrage costs are high and wait times at ports such as Dar Es Salaam are as long as 30 days. The delays are a result of the now-resolved trucker strikes which caused delivery problems, most notably at the Kasumbalesa to Kolwezi border crossing from Zambia to the DRC. South Africa's vertically integrated phosphate producer Foskor will likely return to the market for a cargo loading year-end or January, so should remain quiet for now.

### Middle East

Fob pricing in the Middle East has been falling since September despite spot market offers being limited as contracted tonnes have already been agreed for loading to the end of this year. Some direct supply from Adnoc to India is replacing spot market trades. The lower middle east fob prices have also lowered price expectations in Iran. Buyers are making the most of the favourable pricing, with Chinese end users importing Iranian tonnes throughout November.

December prices out of the Middle East are expected to erode on November monthly prices, and are likely to continue to be pulled down through to January next year. There is no notable market demand and sentiment is soft. Middle Eastern spot prices need to fall and suppliers must be willing to accept lower netbacks in December for buyers to accept cargo trades, particularly in China. But there will be no clear indication of Middle East spot pricing until the Qatari monthly tender is issued and awarded. The tender is expected next week. Softening is set to continue in 2024 but there is likely to be no steep price correction, as tonnes have been forward sold or committed to contract. Improved fertilizer prices will improve sulphur affordability which will help to slow down the market softening, and this could temper the magnitude of any downwards settlements for first quarter 2024 contracts. Negotiations are far from under way, but as sentiment is weak a drop on the fourth quarter is already anticipated.

At Kuwait's Al-Zour refinery there have been multiple disruptions. Kipic was working on restarting production after a technical disruption at the refinery. This maintenance triggered a fire at the plant's desulphurisation unit, but efforts to restart the refinery were not affected and external export operations were able to continue. Restart for the whole refinery is planned for 24 November.

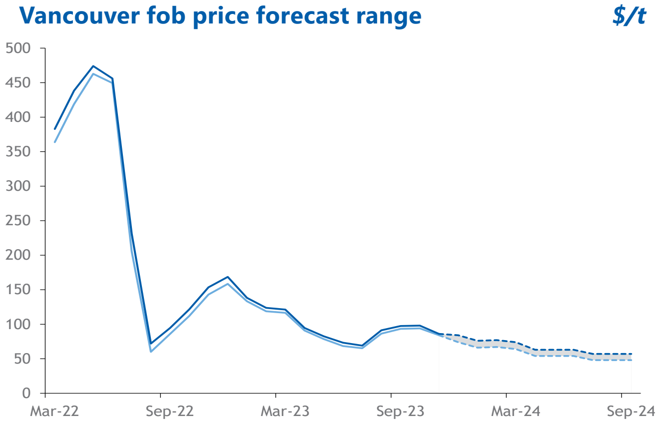
### North America

US activity is muted into the fourth quarter, with fluctuations in spot pricing and a ceiling of around $115/t fob US Gulf Softening is now expected through the end of the year, with a gradual rate of decrease as limited bids from buyers and low demand cause muted market activity.

Moroccan phosphate duties were reduced to just over 2pc earlier in November, which suggests that OCP may gradually resume shipments to the US, but the case is not concluded. There is a threat to US sulphur demand and phosphate production because of the Moroccan phosphate duties, but at present we do not think it will materially impact sulphur demand in the short-term because there are still elements of the case unresolved.

The molten sulphur vessel The *Sulphur Enterprise* is running again, and has left the port of Tampa. It is a crucial part of the sulphur supply chain in the US Gulf, and molten sulphur deliveries to Tampa for Mosaic's phosphate fertilizer production can resume. This will decrease sulphur inventories that built up over the maintenance period by 10-20pc.

The sulphur molten cfr Tampa contract quarter price is expected to soften in the first quarter, supported by the softening global trend. But again it is too early for negotiations




to have started and for a call to be made on the exact drop, yet as price softening is slow and steady in the spot market — rather than steep and stark — it could be in single digits.

Gasoline margins have been falling, and US refineries have been operating at 88pc capacity over the last month, but historically December has brought optimal refinery run rates so output may ramp up towards the end of the year as refineries respond to maximise utilisation, increasing sulphur supply availability.

Stocks are building at Canadian ports, and offers need to be reduced soon to meet buyer price ideas and avoid sulphur stockpiles increasing too much, as buyers hold out for lower pricing in a softening market.

The suspension of phosphate fertilizer exports in China has resulted in limited interest in spot sulphur shipments from Vancouver. China has significant inventories and now even less incentive to import product, so this will hit Vancouver as China is a key export market for Canadian seaborne sulphur. But this will not last indefinitely, and we expect that as Chinese inventories decline and export restrictions ease, China will be forced to look for tonnes from mid-first quarter 2024, easing some pressure at the Canadian port.

Canadian supply costs to the east coast of Mexico and Brazil have risen, because of long wait times into the Panama canal as a result of ongoing delays. This is also limiting export options for tonnes from Vancouver as importers are seeking out alternative suppliers.

In Mexico, Pemex's new Olmeca refinery at Dos Bocas port is expected to start commercial operations by March 2024, a delay on the original expectations of the end of 2023. The refinery has the ambitious goal of producing 2,000 t/d (660,000 t/yr) of sulphur, largely for domestic consumption, but historically Pemex's sulphur production rates have been inconsistent and unpredictable. This, combined with chronic under-investment in recent years, opens up queries about the reliability of production. This brings uncertainty to Mexican sulphur output for the first quarter of 2024, particularly for exports to the US Gulf. But nonetheless, a recent increase in public spending on Mexico's refineries is expected to increase supply and reduce output volatility in the following months.

### Latin America

Demand in Latin America, unsurprisingly and as is the theme of this outlook, is lacking, and nothing out of the ordinary is expected to emerge before the close of the year. Brazil's CMOC is the only company almost guaranteed to surface with some demand before the year ends in the form of its usual tender, particularly as two cargoes have been locked in by Brazilian buyers for late November–December delivery in the last week.

We still anticipate that some elevated demand will emerge in the new year as Eurochem starts up its Serra do Salitre

## Price changes from previous report

Price softening is still the leading sentiment in our forecast this month, unsurprising given the lack of spot demand as the end of 2023 progresses and considering the overall lack of demand from China, which is expected to last well into the first quarter of 2024, freeing up more tonnes for other buyers. On our cfr benchmarks, softening is slow and steady, but, because of faster than previously expected softening over the last few weeks, our first quarter average granular prices are assessed below those of our October outlook by at least $12/t. But bottom end prices are holding a little better, as molten supply for China is limited, and the winter months will slow down exports from the Baltic and Black Sea ports, limiting liquidity.

But it is worth noting that freight adjustments are allowing some of our average fob price assessments to fare a little better in the second and third quarters compared with our October outlook, despite continuing softening in cfr markets. And improved raw material affordability for phosphate producers as a result of a tighter Chinese supply will also result in a steady price erosion, rather than steep correction.

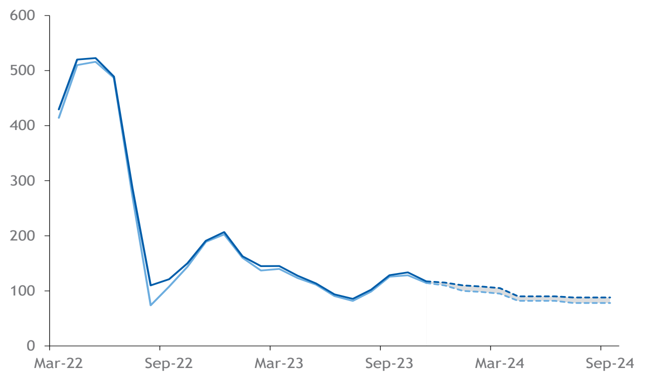
facility, but with end product slate yet to be defined and ramp up set to be rather slow, it may not be until later in 2024 that the true impact on demand is noted. We forecast that Brazil will seek 2.4mn t of imported sulphur in 2024, and consumption will total a little over 2.6mn t.

When it comes to supply for Latin America, it is a mixed bag when considering tonnes from Vancouver. Importers on the west coast of the continent will benefit from reduced and softening price offers for Canadian tonnes in the near term, as there is danger of stocks building at the port if suppliers do not remain competitive, particularly considering that the biggest buying market China is set to remain quiet. But Latin American offtakers on the east coast will face increased costs because of longer than usual waiting times to enter the Panama canal. Yet, considering the softer prices forecast for all supply origins east coast importers will be able to avoid Vancouver loading tonnes, and therefore the freight costs likely benefiting importers on the other side of the continent even more.

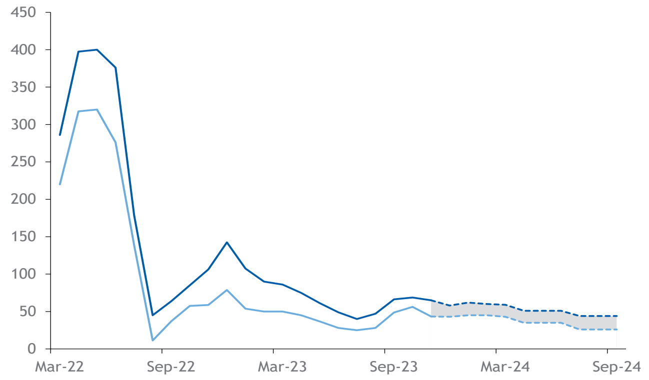
### Russia and Centra Asia

Business is continuing as usual, particularly for the winter months. Cargoes are being offered and bid for at a discount to mainstream tonnes, and this is resulting in fob prices sitting at least $20/t lower than other fob benchmarks. We still expect a pricing discount to be in place across 2024, but as prices slowly erode the differential will likely drop as suppliers will want to protect margins, and Russian producers, of course, have the ability to block product. The same is not true for Kazakh suppliers so, if prices drop too low, it will likely be Russian tonnes that are reduced or removed from the market first. But we do expect a slight pick up in Russian exports in 2024 on 2023 to a little over 1.12mn t, but this will be led by increased demand from those markets still willing and able to import Russian sulphur, rather than an easing and opening up of trade flows to pre-Ukraine war status.

**Brazil cfr price forecast range** $/t




**Black Sea fob forecast range** $/t




In the coming months, Black and Baltic Sea suppliers will also have to consider rising freight costs when making offers, as the requirement of ice breakers will elevate freight rates further. The challenge will be managing and slowing any price softening on a cfr level for exports, in order to minimise the impact on netbacks of increasing freight costs. But this is more easily said than done when export options are limited and global market sentiment is weak.

### Mediterranean

Mediterranean fob prices peaked last month as the market caught up with global price movements. In line with the wider market trend, the fob price is now falling again as a price ceiling was reached at the end of October. Pricing is likely to follow the global market trend at a lag, and continue to fall across the fourth quarter. Sulphur demand from the fertilizer sector is also falling, with DAP and MAP demand stalling as seasonal fertilizer application is down in the winter months.

Lower-priced Russian origin product is entering the region, with some buyers taking Russian tonnes on a spot tender, and Turkish buyers bid in the mid-$90s/t cfr for Russian tonnes recently. This has caused demand for Mediterranean spot tonnes to drop, and buyers have stayed out of the market as Russian tonnes have entered at low prices. Premium suppliers are not in the market, as bids are coming in below current market prices. In Turkey, Israel, Italy and Greece there is no current open spot demand, as buyers are unwilling to settle in a softening market. Across the wider market the sentiment is the same, buyers are not desperate for new tonnes and are waiting for prices to fall further to the end of the year before putting bids in.

When it comes to Mediterranean exports, Greek exports have fallen by 11pc year-on-year, with supply to Egypt dropping by 40pc. Egypt is sourcing Russian tonnes more regularly, as tonnes are continuing to be priced at a discount to mainstream origins. Motor Oil Hellas issued a 7,000t sell tender for December loading which has yet to be concluded, but may settle at a lower price because of the softening market.

In Italy local supply has met demand requirements, with some spare product expected to be available for export later in the year. In Spain there was an enquiry to buy sulphur, but domestic production remains healthy and able to meet demand.

### Western Europe

Planning for 2024 is now firmly under way in western Europe and sentiment has improved on 2023. There are estimates that 2023 sulphur consumption is down by around 20-30pc as the chemical industry has faced competition from cheaper imported caprolactam and titanium dioxide among other chemicals. And comparatively higher energy costs have eaten into the competitiveness and margins of the European chemical industry. These have then been compounded by lower downstream demand from industries like the automotive sector and high inflation rates, and competition from regions where industries are heavily government subsidised. This has pushed companies in Europe to seek out cost-saving measures until macroeconomic factors improve and some lost demand returns. There are tentative signs in the region that demand is improving, though the extent is yet to be seen and no dramatic increases are set to materialise, particularly with the winter months approaching.

On the supply side, the notable drop in sulphur production this year as a result of a lack of Russian sour crude feedstocks is set to continue in to next year. European refineries are producing lower sulphur volumes with new sources for feedstocks, often not reaching the quantity of previously established Russian flows, and the crudes are sweeter. This has left the region with a more rapid decline in sulphur production than anticipated at the start of this year, but this has not been an issue because of the drop in consumption. But it will likely worsen across the short to medium-term. As a result of the impending tightness conversations re-emerged at an industry event last week about the re-melters proposed by Saconix and Aglobis. But it will be at least another 3-5 years before they need to be factored into the western European sulphur market picture.

In the nearer term it is still slightly too early to consider first quarter contracts, but some tentative views have been discussed, and with global sentiment pointing towards the soft it would be unlikely that an uptick happens.

## Freight

The *Sulphur Enterprise* is running again after a nearly six-month maintenance period. It will transport molten sulphur to Tampa meaning sulphur inventories, which had built up over the maintenance period, can be drawn down.

Delays are ongoing at the Panama Canal, and Canadian supply to Mexico and Brazil is facing increased costs. Alternative routes avoiding the canal are being used despite lower pricing for suppliers. Freight costs for vessels sailing from the Atlantic are incurring a premium because of waiting times to pass through the Panama Canal, or are being diverted to the Magellan Strait, lengthening journey time.

Logistical issues at the canal are also expected to hinder sulphuric acid flows to Chile in the first quarter, adding costs and increasing transit time, and will result in more acid remaining in nearby destination markets. This may increase sulphur demand to generate more sulphur-burnt acid to meet requirements.

South African logistics operator Transnet is privatising its network, and the rail network will be open to third parties from April 2024. Transnet will have to compete with other train operating companies in the future, potentially driving up the transport costs for railed sulphur.

Truck freight rates in Germany are expected to increase next year as EU limitations on $CO_2$-emitting vehicles are put into place. This will be an added cost for molten sulphur buyers, and is likely to extend throughout Europe as further legislations are passed.

# New capacity

**New capacity 2023-24**

| Company | Project | Location | Date expected | ± Capacity '000 t/yr | Notes |
|---|---|---|---|---|---|
| Hindustan Petroleum | Visakhapatnam | India | 1Q24 | 263 | Capacity increased on review. Project continues to progress, on track for early-2024 start up with ramp up to continue through the year |
| Oil India | Numaligarh | India | 2024 | 3,000 | Scheduled for completion in 2024, running into 2025 |
| Hindustan Petroleum | Barmer | India | 2Q24 | 168 | Refinery expansion continues to progress |
| Albright Sour Gas | Alberta | Canada | 3Q24 | 135 | Construction ongoing for new SRU |
| Midor | Alexandria | Egypt | Q424 | 135 | Completion for expansion pushed back to 4Q24 |
| Bapco | Sitra | Bahrain | 2023-24 | 290 | Project is 90pc complete, expected to be ready at year-end or start of 2024 |
| Shenghong Petrochemical | Lianyungang | China | 2022-24 | 600 | Gas based, continues to ramp up from 2022 |
| Yulong petrochemical | Yulong | China | 2020-2024 | 550 | Capacity of 275,000 t from 2024, rising to 550,000 t/yr thereafter |
| Thai Oil | Chonburi | Thailand | 4Q24 | 88 | Construction for expansion remains ongoing, start up pushed back from 1Q24 |
| Saudi Aramco | Jizan | Saudi Arabia | 2023 | 259 | Increase of 141,000 in 2023, expected to reach full capacity of  by end of 2023 |
| TechnipFMC | Bapco | Bahrain | 2024 | 90 | Expected to rise to 90,000 t/yr in 2024 |
| OQ8 | Duqm | Oman | 1Q24 | 500 | Expected to reach capacity of 500,000 in 2026, and rising by 200,000 in 2024 |
| PetroChina | Petrochina Chuandongbei Tieshanpo | Dazhou | 2023 | 350 | Gas project. Start up was expected in June 2023, ramping up through to 2024 |
| Sinopec | Hainan refining | China | 2023-2024 | 80 | Production expected to rise from 2023 |
| Sinopec Zhenhai Refining and Chemical | Ningbo refinery | China | 2023-24 | 150 | Refinery expansion on line since April 2023, located in Zhejiang province |

**key capacity additions*

Information on sulphur production capacity additions beyond 2023 can be found in the *Argus* Sulphur Analytics service. For more information, please click here.

# Production maintenance

**Sulphur producer maintenance**

| Country | Company | Period | Sulphur Capacity (t/y) | Note |
|---|---|---|---|---|
| Croatia | INA Petrokemija | December for three months | 18,000 | Planned maintenance turnaround at the Rijeka refinery |
| Russia | Rosneft | From September | 17,000 | Scheduled extensive work at Saratov refinery |
| Russia | Lukoil | 1 June to 31 December | 101,000 | Planned maintenance at the Volgograd refinery |
| Taiwan | Formosa Petro-chemical | Maintenance since September | 400,000 | The Mailiao refinery is delaying its restart from a 60 day long maintenance period |
| US | PBF Energy | Beginning in the fourth quarter, for 50 days until the end of November | 106,000 | Planned turnaround on fluid catalytic cracking unit at Torrance, California |
| US | LyondellBasell | Beginning in the fourth quarter | 265,000 | Planned turnaround at Houston, Texas refinery |
| US | ConcoPhillips | Beginning in early October, expected to last until late November | 90,000 | Planned seasonal maintenance on the Borger, Texas refinery |
| US | CVR Energy | Spring 2024 turnaround | 14,000 | Planned turnaround at the Wynnewood, Oklahoma refinery |
| US | Valero | Beginning 6 November, ongoing | 89,000 | Planned maintenance at the Houston, Texas refinery |

# Macroeconomic overview

After signs of improvement in China's economic conditions in the previous month, low growth data in October highlight the country's continued struggle to recover economically. The Caixin purchasing managers' index (PMI) for manufacturing fell to 49.5, marking the first contraction (a score below 50) since July. But the slowdown could be attributed to the eight-day national holiday in October, during which time many factories paused production.

While the services sector PMI in October rose to 50.4 from 50.2 in September, the jump came below analysts' expectations. Chinese exports also fell, by 0.3pc, in October, dashing forecasts of a 4pc increase. Weak data at the beginning of the fourth quarter indicate the economy is losing momentum, which will probably weigh on this year's annual GDP growth.

In contrast with the Chinese economy, the US economy beat analyst expectations as GDP in the third quarter grew by 4.9pc year-on-year. Yet current data suggest it may be slowing down as the delayed impact of higher interest rates kicks in. The US labour market added 150,000 jobs in October, nearly half of September's 297,000 increase. October also saw the lowest level of corporate debt issuance as companies looked to delay investments to avoid higher borrowing costs. Oxford Economics forecasts that US GDP will contract in the third quarter of next year.

Despite the US economy slowing down, the US Federal Reserve, in its last meeting in October, warned that interest rates should be kept steady for longer, as another rate hike would take the benchmark rate to 5.50-5.75pc. Apart from a resilient labour market, the warning was driven partially by inflation in September, which jumped by 0.5pc to 3.7pc from 3.2pc in August, moving further away from the central bank's 2pc target.

In contrast with the US, inflation in the euro area is expected to fall to 2.9pc in October, down from 4.3pc in September and much closer to the European Central Bank's 2pc target. The largest drop in inflation is forecast to come from energy prices, which are set to decline by more than 11pc on the year. The Netherlands and Belgium in October are expected to see deflation of more than 1pc, while prices in Germany and France are expected to grow by 3pc and 4.5pc, respectively. The faster disinflation in Europe may be caused partially by its economy slowing down more than that of the US because of tight credit, declining consumption and low import demand from China.

Retail inflation in India has also eased, to 5pc in September from a peak of 7.4pc in July. The initial jump in inflation came from an erratic monsoon season that led to high food prices. Inflation is now within the central bank's tolerance band, and is expected to fall further in the coming months as food prices ease.

Global price stability is improving overall, but the Israel-Hamas conflict has sparked uncertainty in the Middle East, pushing up oil prices. The conflict presents an inflation risk in the short run, particularly in energy-importing countries such as India, which gets more than 30pc of its energy from imports.

## Currencies

**Chinese yuan** – The yuan's struggle against the US dollar continued in October, closing at Yn7.32:$1 as of 31 October, compared with Yn7.17:$1 at the start of that month. The yuan's weakening comes partially from a strong dollar, driven by the prospect of another interest rate hike by the Federal Reserve. Yet the yuan is down by close to 6pc from the beginning of this year, mostly because of the weak economic recovery. With economic data in October indicating the fourth quarter's growth momentum is slowing, the yuan is unlikely to strengthen in the coming months. But if the Federal Reserve issues a strong signal to pause interest rate hikes, we can expect some correction in the yuan-dollar exchange rate.

**US dollar** – With the possibility of interest rates now peaking at 5.50-5.75pc if the Federal Reserve raises interest rates again in December, the dollar has surged, with the DXY Index 4pc higher at the end of October than at the start of August. Mounting uncertainty in the Middle East is likely to further support the dollar because of its currency haven status. With rising US government debt, now at more than 120pc of GDP, and Fitch downgrading its ratings from AAA+ to AA, some investors could look to diversify away from the dollar, limiting its upside potential in the coming months.

# Related markets

### Sulphuric acid

In Chile contract options are still going as buyers are unwilling to commit to high fixed contract prices as cfr spot prices fall lower. A large proportion of annual contracts are now expected to be agreed on a variable basis. Shipping flows to Chile in 2024 could be disrupted because of logistical issues and resulting delays at the Panama Canal. The delays add several days onto transit time, and increase costs. European acid provided 27pc of Chile's imports in the year to September, with Belgium the largest supplier, providing 8pc of imports. Northeast Asian countries supplied 30pc of Chilean imports, and Peru made up the rest, providing almost 40pc of Chile's acid.

In Morocco, OCP returned to the acid market in the third quarter of 2023, and is negotiating 2024 contract volumes with European suppliers. This would keep European acid in the nearby markets, returning to a more traditional market as almost 70pc of Moroccan acid imports previously came from China.

In the US there has been significant recent investment into acid, which is strengthening the US spot market, and as demand is increasing buyers are pushed to pay higher prices. There are current concerns with high-quality acid supply, as there are 8-10 consumption projects but only 2-3 plants in development for high-quality acid. Chemtrade had an under-estimation of costs at its Casa Grande facility, which caused delays and uncertainty as costs were 50pc higher than expected. The timeline is yet to be confirmed for the planned ultra-pure acid facility in Arizona.

Spot acid pricing in the Gulf Coast was relatively inexpensive but there was little interest from US buyers, because demand is lagging behind supply. There has been little-to-no interest in spot purchases across the fourth quarter, which indicated a reduction in imports year-over-year. Reduced demand for end use products, unfavourable economic conditions and sufficient US supply all contributed to market softening in the region.

In northwest Europe, there was muted spot liquidity and tight availability for offers. The market sentiment follows the global trend, with some softness expected for the first quarter, and low buying ideas because of a lack of demand. This subdued market activity is likely to continue throughout the first half of 2024. Annual contract negotiations are beginning, but buyers do not want to settle on high prices because of weak domestic demand, a tightening market, and high energy costs in the EU.

In Asia, acid in Indonesia is becoming self-sufficient as new smelters have come on line across the country, limiting sulphur intake in the medium-term. There is still some acid demand in the short-term, and Fertilizer Pupuk Indonesia issued a buy tender of 40,000 t for December which closed this week, but no offers were made, highlighting muted market activity.

### Natural Gas

Kazakhstan is considering building a new 600 km gas pipeline to link western producing natural gas regions to the north of the country. A feasibility study by state-owned Qazaqgaz Intergas Central Asia for the Aktobe-Kostanay project will take place in the first quarter of 2024. If the project materialises, it will improve domestic transport in the region by decreasing journey times and freight rates.

Gasoline crack spreads fell sharply on the US Gulf coast, and weak demand following the end of the summer driving season is highlighted by the rise in gasoline stocks. US Gulf natural gas processors produced 288,000 t of sulphur between January and August this year, down 18pc from the same period last year as throughputs to regional refineries declined.

Russian gas company Gazprom is investigating opportunities for underground gas storage in far eastern Russia. The proposed sites are located near to the 42 bn $m^3$/yr Amur gas processing plant (GPP). The sites are on schedule to be surveyed next year. Currently, the Amur GPP exports processed gas to China through the PoS 1 pipeline, and plans to supply more than 22 bn $m^3$/yr through the pipeline next year. The storage facility will improve Russian security of supply and availability to export. Gazprom plans to start deliveries along the far east route by 2027.

### Crude

India has emerged as a new customer for Russian crude, and discounted Russian product has helped to boost Indian refiner profits. But since November, as crude prices are higher this quarter and discounts are narrowing for Russian crude, refining margins in India may come under pressure. Indian imports of Russian crude have fallen, down by 3pc since September to make up 36pc of India's total imports of 4.57 mn b/d. While crude prices fluctuate and remain competitive, refiners in India are likely to continue to buy Russian crude, but are looking to expand their crude suppliers. Imports from Venezuela are an option, and some Indian refineries, such as HPCL's Visakhapatnam are planning to be equipped to process heavier Venezuelan crudes by February 2024, which will help boost refining margins. But Venezuelan production gains are likely to be limited to 200,000 b/d.

The sulphur decline in western Europe as a result of a lack of Russian sour crude feedstocks is expected to continue through to next year. European buyers are finding new sources for replacement tonnes as refiners are not producing the same quantity of sulphur as the previous Russian flows. There has been a drop in European sulphur consumption, so the decline in production is not currently a concern, but if demand returns in the longer term, tightening is expected.

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