The Commodities Feed: Australian LNG strike risk grows

European natural gas prices rallied yesterday as the threat of strike action in the Australian LNG industry grew. This is after unions served a strike notice to Chevron

Unions in Australia have served a strike notice to Chevron for workers at its Wheatstone LNG operations (pictured)

Energy – A step closer to Australian LNG strikes

European gas prices rallied yesterday with TTF settling more than 10% higher on the day after unions in Australia served a strike notice to Chevron for workers at its Gorgon and Wheatstone LNG operations. Strike action is set to start on 7 September, and the Offshore Alliance has said that action will escalate each week until a deal is finally made.

The serving of notice does not guarantee strike action, with both parties set to continue negotiations between now and 7 September. However, clearly, the risk of disruptions at both facilities, which have a combined capacity of 24.5mtpa (around 6% of global LNG supply) is growing. Woodside was able to come to an agreement with unions for workers at its North West Shelf facility last week before a strike notice was served.

Supply uncertainty will linger in the gas market, which is likely to continue to support Asian LNG, particularly given that these potential disruptions coincide with when Asian buyers usually step up their buying ahead of the northern hemisphere winter.

Middle distillates continue to be well supported with the NYMEX heating oil crack remaining above US$50/bbl, whilst the ICE gasoil crack continues to trade around US$40/bbl. A fire at Marathon's Garyville refinery in Louisiana at the end of last week has provided further support to products. The refinery has a capacity of 596Mbbls/d, making it the second largest refinery in the US according to the Energy Information Administration. The refinery is currently operating at reduced rates and there is little clarity on when operations will return to normal.

Metals – Supportive measures from China

China announced some measures on Monday to support the economy and financial markets. Beijing has reduced the stamp duty on stock trading by 50% (from 0.1% to 0.05%), with the Chinese Securities Regulatory Commission also approving new retail funds to increase capital inflow and tightening IPO regulations to boost confidence among investors.

Meanwhile, the National Development and Reforms Commission also pledged to increase private investments in the construction of national and key infrastructure projects including transportation, advanced manufacturing, and modern agriculture facilities among others. In addition, China announced some measures to support the flailing property sector. These measures have helped broader sentiment in financial markets. This is likely to see LME metals opening stronger today, with yesterday a bank holiday in the UK.

Spot gold has managed to edge higher in recent days with the market reacting to hints from Jackson Hole that the Federal Reserve will likely keep rates unchanged at its September FOMC meeting. However, we could see some renewed pressure later in the year, with the market still coming around to the idea that the Fed may have to hike rates at least one more time later in the year. This continues to support the US dollar and treasury yields. However, we will need to keep a close eye on US data releases in the coming weeks, which could shed more light on what the Fed may do. This starts with the US jobs report on Friday.

Despite strength in recent days, gold ETFs have seen 13 consecutive weeks of outflows. In addition, CFTC data show that over the last reporting week, speculators cut their net long in COMEX gold by 20,845 lots over the week to 25,695 lots, the lowest levels since March.

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