The Commodities Feed: LNG strike action delayed

The oil market has shrugged off the weakness seen in equity markets with strong fundamentals continuing to support prices. Meanwhile, European gas prices came under pressure yesterday with delayed strike action at Australian LNG facilities raising hopes that parties could come to a deal

Energy - Saudis increase prices into most regions

Sentiment in the oil market remains constructive after Saudi Arabia and Russia decided to extend their voluntary supply cuts by three months. ICE Brent managed to edge higher yesterday, settling at US$90.60/bbl, whilst the Brent Dec'23/Dec'24 spread continues to surge, settling at a backwardation of US$7.28/bbl, up from less than US$4/bbl in late August. The strength in time spreads is clearly indicating tightness in the oil market. Our balance sheet shows that the market remains in deep deficit through until year-end, before moving back into a small surplus in 1Q24. While this surplus may lead to some price weakness early next year, we believe that it will be short-lived with the market set to return to deficit over the latter part of 2024.

Following the extension of Saudi cuts and the tightness in the market, it was no surprise that Saudi Arabia increased its official selling prices (OSP) for most grades of its crude into most regions. The flagship Arab Light into Asia saw its OSP raised by US$0.10/bbl MoM to US$3.60/bbl over the benchmark for October - the highest level seen so far this year. All other grades into Asia also saw increases, while similar action was taken for grades into the US and Med. Europe was the only region which saw some relief, with OSP's for all grades cut.

API data released overnight was constructive, showing that US crude oil inventories fell by 5.5MMbbls, This is larger than the roughly 2MMbbls draw the market was expecting. In addition, crude oil inventories at the WTI delivery hub, Cushing, declined by 1.35MMbbls. On the product side, gasoline stocks fell by 5.1MMbbls, while distillate stocks increased by 300Mbbls. The increase in distillate stocks was marginal but will help ease some concern over low middle-distillate inventories as we head into the northern hemisphere winter. The more widely followed EIA inventory report will be released later today.

Natural gas prices came under significant pressure yesterday with TTF falling by almost 10%. This is after growing optimism that strike action at two of Chevron's LNG facilities in Australia may be avoided. Partial strike action was meant to start at Gorgon and Wheatstone today. However, this has been delayed until tomorrow as the company and unions continue to work towards a deal. The two facilities make up around 6% of global LNG supply so the market continues to watch these developments closely.

The European market will also have to deal with lower Norwegian gas flows for a little bit longer than originally anticipated. Field maintenance at several fields, including Troll has been extended by a couple of days. Total Norwegian flows are around 137mcm/day, compared to more than 300mcm/day in mid-August.

Metals – Zinc exchange inventories fall

LME data shows that exchange inventories fell by 3,175 tonnes to 148,400 tonnes yesterday. The majority of the outflows were reported from warehouses in Singapore and Malaysia. Meanwhile, on-warrant stocks extended their decline for a fourth consecutive session, falling by 1,300 tonnes to 89,450 tonnes.

In copper, China's CMOC Group Ltd. said that it will ship out all of its stranded copper stockpiles of about 240kt in the DRC by the end of this month. The company also expects its copper output from the DRC to rise to 600kt in 2024 following capacity upgrades.

Recent data from the China Iron and Steel Association (CISA) shows that steel inventories at major Chinese steel mills fell to 14.7mt in late August, down 11.5% compared to mid-August. The association also reported that crude steel production at major mills fell 7.7% from mid-August to 2.05mt/d in late August, as weaker profit margins weighed on output.

World Gold Council data shows that central banks continued to expand their gold reserves, reporting net additions of around 55t in July. The People's Bank of China (PBoC) was once again the largest buyer, adding 23t during the month, resulting in year-to-date purchases of 126t. Meanwhile, the National Bank of Poland (NBP) was the second largest buyer, increasing its gold reserves by 22t over July to a total of 299t.

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