The Commodities Feed: LNG strike action looms

We should get more clarity on potential strike action at Australian LNG facilities later this week, with workers giving a deadline for talks. Gold prices remain under pressure, but Jackson Hole could bring increased volatility later in the week

The workers at Wheatstone's LNG plant in Australia voted in favour of a strike, pushing up supply risks

Energy - Moving closer to LNG strike action

The global natural gas market should get more clarity around potential strike action at Australian LNG facilities this week. Over the weekend, workers at Woodside said they will give the company until the end of Wednesday to come to a deal - otherwise they will call industrial action. Workers said that they would give 7 working days notice if strike action is to be taken. Woodside's North West Shelf (NWS) facilities have a capacity of around 16.7mtpa, equivalent to a little over 4% of global supply. We should also get more clarity on what workers at Chevron's Gorgon and Wheatstone facilities decide by 24 August. These two facilities have a combined capacity of 24.5mtpa. Given that European gas storage is now around 91% full, we believe any strength in prices should be short-lived. We would need to see a large amount of the at-risk capacity (41.2mtpa) offline for a prolonged period in order to lead to a significant change in European fundamentals, at least over the next month or two.

Chinese trade data released last week shows that LNG imports in July totalled 5.86mt, down from 5.96mt the previous month, although, still up 24.3% YoY. This leaves cumulative LNG imports at 39.24mt, up 9.3% YoY. These stronger YoY flows are to be expected, given the impact of covid-related lockdowns last year. It is important to point out that cumulative imports are still down more than 13% from 2021 levels.

Trade data also showed that Chinese diesel exports grew significantly, with 910kt exported over July, up from 290kt in June and a 153% increase YoY. This leaves cumulative exports at 8.4mt - an almost 250% increase YoY. Stronger run rates and larger export quotas have supported these stronger flows, whilst a strong global middle distillate market more recently will also be supportive of these flows.

The latest rig data from Baker Hughes shows that the number of active oil rigs in the US fell by 5 over the week to 520 - the lowest level since March last year. The US has lost 107 oil rigs since early December and it is not too surprising that this reduced drilling activity means that oil production growth forecasts for later this year and through 2024 are looking relatively modest. Primary Vision's frac spread count shows that it is not just drilling activity which is falling - US completion activity is also trending lower, with the frac spread count falling by 6 over the last week to 256.

The latest positioning data shows that speculators increased their net long in ICE Brent by 19,748 lots to 230,735 lots. This is despite oil prices edging lower over the reporting period. The move was driven by fresh longs, suggesting that some speculators took advantage of more recent price weakness to enter the market from the long side. Positioning data for NYMEX WTI shows that speculators liquidated longs over the week, with the net long declining by 31,338 lots to 178,820 lots. Finally, speculators remain constructive towards middle distillates, increasing their net long in ICE gasoil by 5,703 lots to 93,941 lots - the largest position since March 2022. The market appears to be concerned about the fact that ARA gasoil inventories are still looking quite tight and we are yet to start seeing a build in inventories as we edge closer towards the start of winter.

Metals - Gold struggles

The gold market remains under pressure, with spot prices now trading below US$1,900/oz. The realisation that we are unlikely to see the Fed start cutting rates this year has weighed on gold. In fact, recent US macro data suggests that there is still the possibility that the Fed may have more work to do when it comes to monetary tightening. We could see some volatility later this week in gold prices with Jerome Powell set to talk at Jackson Hole on Friday, possibly providing some insight on Fed policy for the remainder of the year. Higher rates have seen 10 year real yields hit their highest levels since 2009 recently, and they continue to edge closer towards 2%. The stronger rate environment combined with USD strength is certainly not proving supportive for gold. ETF holdings in gold have seen 12 consecutive weeks of outflows - over this period we have seen outflows of around 4moz, leaving total ETF gold holdings at around 90moz. Speculators also reduced their net long in COMEX gold by 29,042 lots to 46,540 lots over the last reporting week.

The latest trade data from China Customs show that imports of unwrought aluminium and products rose 20% YoY to 231.5kt in July. This leaves cumulative imports over the first seven months of the year at 1.43mt, up 12.2% YoY. On the export side, alumina exports jumped by 266% YoY to 130kt last month, while YTD exports have risen by 16% YoY to 700kt. This increase is driven largely by stronger flows to Russia.

Agriculture - Specs increasingly bearish on corn

The latest CFTC data shows that money managers increased their net short in CBOT corn by 45,924 lots to 72,580 lots over the last reporting week. Improved crop conditions in the US have eased some concerns over the US corn crop. It is a similar story for CBOT soybeans, where speculators reduced their net long by 13,362 lots to 50,719 lots. Meanwhile, speculators increased their net short in CBOT wheat by 10,195 lots to 65,590 lots. Clearly, the market is not overly concerned about Ukrainian grain flows, with strong supply growth elsewhere this season, particularly when it comes to corn.

Recent trade numbers from China Customs show that sugar imports fell 60.5% YoY to 110kt in July, whilst cumulative imports declined 41% YoY to 1.2mt in the first seven months of the year. Earlier, 2022/23 sugar import estimates were cut, a trend that we are seeing across a number of key importers, with higher global prices seeing a number of countries drawing down domestic inventories instead.

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