

Article | 11 August 2023

COMMODITIES DAILY

The Commodities Feed: LNG supply risks linger

Natural gas prices are likely to remain volatile in the coming days, at least until there is some clarity surrounding potential strike action at a number of Australian liquefied natural gas (LNG) facilities



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

Energy – OPEC sees deficit over remainder of 2023

Oil prices came under some pressure yesterday with ICE Brent settling a little more than 1.3% lower on the day. This is despite OPEC releasing its monthly oil market report which suggests that the market will continue to tighten for the remainder of the year. OPEC made little in the way of changes to its global oil demand forecasts for the rest of this year and for 2024. However, the group did revise higher its 2023 non-OPEC supply estimates by a little more than 100Mbbls/d on the back of upward revisions to Russian supply. OPEC numbers suggest that demand for OPEC oil over the third quarter will be 29.56MMbbls/d, which is well above the 27.31MMbbls/d that OPEC produced in July. The call on OPEC output grows to 30.74MMbbls/d in the fourth quarter, whilst over 2024, the group's numbers suggest demand of 30.08MMbbls/d for OPEC oil.

Given the current production targets of OPEC+ until 2024, these numbers suggest global oil inventories will draw for the remainder of this year and over 2024. The International Energy

Agency (IEA) will publish its latest monthly oil market report later today, where it will share its latest outlook for the market.

The significant cuts that we are currently seeing from OPEC+ continue to be supportive for medium sour crudes. The Brent-Dubai spread remains in negative territory and in fact has traded to a discount of more than US\$1.20/bbl – lower than the levels seen during 2020, when OPEC+ made significant cuts. The weakness in Brent relative to Dubai should mean that Atlantic Basin crudes should be more appealing to Asian buyers. It is difficult to see any significant reversal in the spread before Saudi Arabia starts unwinding its additional voluntary supply cuts.

Having rallied significantly earlier in the week, following supply risks around Australian LNG, the European gas market gave back some of these gains yesterday, with TTF settling more than 6.6% lower on the day. The European gas market remains in a comfortable situation with storage more than 88% full and it is clear that the region will hit its target of 90% by 1 November, well ahead of schedule. However, the market will still need to keep a close eye on how labour negotiations progress in Australia. The potential for prolonged industrial action at a number of Australian LNG facilities could put a little over 10% of global LNG supply at risk, and given Europe's growing reliance on LNG, this would (as already seen in recent days) have an impact on European gas prices as Asian buyers compete more aggressively for alternative supply.

Agriculture – UNICA reports higher cane crush

The latest fortnightly report from UNICA shows that sugar cane crushing in Centre-South Brazil rose to 53mt, up 7.8% year-on-year in the second half of July. The cumulative sugar cane crush for the season increased by 9.7% YoY to 311.3mt. Sugar production rose 11.3% YoY to 3.7mt in 2H July, with 50.7% of cane allocated to sugar production in the fortnight, higher than the 47.7% allocated in the same period last year. Cumulative sugar output so far this season stands at 19.2mt, up 19.8% YoY.

Meanwhile, in its quarterly report, the International Sugar Organization said that the global sugar market is expected to witness a deficit of 2.12mt in 2023/24 primarily due to lower output in major producing regions. Global production for the season is expected to reach 174.8mt, lower than the 177mt reported in 2022/23. Meanwhile, global sugar consumption is seen at 176.98mt, however, higher prices may prove to be a drag on consumption.

Ukraine's Ministry of Agriculture revised domestic grain output to 56.4mt for the year, up from a previous expectation of 46mt. The above estimates include 28mt of corn (up 1.4% YoY) and about 21mt of wheat (in line with the last year's harvest). The harvest estimates have increased despite lower sowing areas as favourable weather conditions have helped.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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