

The Commodities Feed: Supply risks from Australia push European gas prices higher

European natural gas prices spiked yesterday after workers at some Australian liquefied natural gas (LNG) plants voted to strike, which could impact nearly 10% of global exports



Australia's North West Shelf gas plant

Energy – LNG supply risks from Australia

TTF prices surged more than 40% yesterday after reports of potential strikes at Australia's LNG facilities pushed up supply risks significantly. The workers at three LNG plants (North West Shelf, Wheatstone and Gorgon, with a combined capacity of around 41.4mtpa of LNG) voted in favour of a strike with walkouts to begin as soon as next week under labour rules if a settlement is not reached. Australia supplies around 20-25% of global LNG per year and these strikes could impact nearly half of Australian exports.

The spike in European gas prices highlights the anxiety about existing LNG supplies following the decline in supplies from Russia. Asian LNG prices were relatively unaffected, with European gas currently trading at a premium of US\$1.1/MMBtu over Asian gas prices compared to a discount of US\$1.1/MMBtu on Tuesday. Meanwhile, the gas storage levels in Europe stand comfortably high at

around 90% of capacity and well above the five-year average.

The weekly report from the Energy Information Administration (EIA) shows that US commercial crude oil inventories increased by 5.9MMbbls over the week to 445.6MMbbls for the week ending 4 August. This was much higher than the average market expectation of a build of 1.9MMbbls. When factoring in the SPR releases, total US crude oil inventories increased by around 6.8MMbbls as the SPR stocks increased by 1MMbbls for the abovementioned period. Meanwhile, oil inventories at Cushing, Oklahoma rose by 0.2MMbbls (after reporting declines for five consecutive weeks) to 34.6MMbbls. The EIA reported that the US crude oil production rose 0.4MMbbls/d to stand at 12.6MMbbls/d last week. As for refined product inventories, gasoline inventories fell by 2.7MMbbls, against a forecast of a marginal fall of 0.1MMbbls. While distillate stockpiles declined by 1.7MMbbls last week, against expectations for a build of 0.2MMbbls. Meanwhile, refineries operated at 93.8% of their capacity last week.

The prompt spread for WTI moved into a deeper backwardation and reached intra-day highs of US\$0.8/bbl (the highest since mid-November) yesterday, indicating worries over tightening supplies in the near term. The ongoing supply cuts by Saudi Arabia coupled with sharp hikes to official selling prices, higher demand for US crude in the international market and low inventory at Cushing are helping the spot WTI prices to move higher.

Metals – China's metals output edges higher

The latest SMM survey shows that China's copper cathode production rose by 10.2% year-on-year to 926kt in July due to the ample availability of raw materials and increased supply from the newly commissioned smelter in the Shandong region. Cumulatively, copper output increased by 11% YoY to 6.5mt over the first seven months of the year.

Among other metals, Chinese refined zinc production rose by 15.8% YoY to 551kt in July, while cumulative output rose by 9.6% YoY to 3.8mt in the first seven months of 2023. Meanwhile, refined lead output gained 22% YoY to 319.7kt last month while year-to-date output rose 17.6% YoY to 5.84mt between January and July.

In ferrous metals, the most active contract of iron ore trading at SGX inched lower to around US\$100/t this morning amid worsening conditions in the Chinese property sector, lower demand from the downstream industry and stable supply from major producers.

Meanwhile, recent reports suggest that China's government is planning to impose steel production curbs in the latter half of the year. The move is expected to prevent the market's oversupply conditions, avoid policy conflict, and discard any risks related to trade tariffs. Steel mills in the nation have already been under pressure from shrinking profits for quite some time and are now seeing cost cuts, paring output and drawing inventories. Lastly, the recent official data show that iron ore shipments from Australia rose to 20.1mt for the week ending 28 July, up from 15.1mt over the preceding week.

Agriculture – Coffee supplies under pressure

Data from the General Statistics Office of Vietnam show that coffee exports dropped by 22.6% month-on-month (7.6% YoY) to 109kt in July 2023. Cumulatively, coffee exports have dropped by 3.4% YoY to 1.1mt over the first seven months of the year. The overall decline in exports could be largely attributed to lower inventories.

Meanwhile, the coffee growers federation of Colombia reported the nation's coffee output stood at 947k bags (60kg bags) in July, marginally higher than the 944k bags from a year ago. However, coffee production in the nation has fallen by 16% YoY to 10.4m bags over the past 12 months due to unfavourable weather conditions. Coffee shipments from the nation also declined by 17% YoY to 846k bags in July.

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