Companies&Markets

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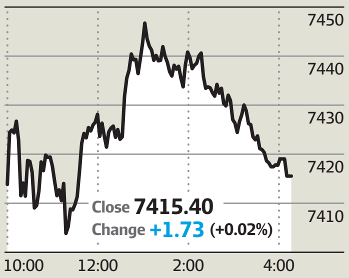
Market snapshot

S&P/ASX 200 Index (points)



S&P/ASX 200 stocks Thursday

Advancers	Close ($)	Change (%)
Perpetual	40.38	+7.79
CIMIC Gp	21.88	+5.85
Healius	4.75	+4.40
Nickel Mines	1.095	+4.29
AMP	1.165	+4.02
Decliners		
Flight Centre Travel	20.39	-5.82
Super Retail Gp	12.65	-4.38
The a2 Milk Company	7.13	-3.52
Codan	12.90	-3.23
Webjet	6.31	-3.07

Indices	Close (points)	Change
ASX 200	7415.4	+1.7
Nikkei	28735.23	-520.32
Hang Seng (pm)	25870.50	-265.52
Shanghai A	3760.51	+1.19

Currency		Change
$A/US¢	75.00	-0.15
$A/¥	85.48	-0.46
$A/€	0.6436	-0.0013
$A/£	0.5429	-0.0007
$A/$NZ	1.0429	-0.0009

Rates	Close	Change
Cash rate %	0.10	steady
10-yr bonds $A	99.46	-0.28

Commodities	Close ($US)	Change
Gold (spot)	1786.08	+4.82
Iron Ore future (Oct 21)	120.85	-2.23
Oil WTI	83.62	+1.18

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Energy crisis boosts Santos and Woodside

Angela Macdonald-Smith

Woodside Petroleum and Santos raked in almost $3.6 billion in sales in the September quarter, up 80 per cent from the same time last year as the oil and gas producers cashed in on the international energy price crisis,

Buoyant international gas and oil prices are also paving the way for a bumper end to the year and are giving a boost to Woodside's drive to bring in partners for its $16 billion Scarborough gas project in Western Australia.

Between them, the two sold 18 LNG cargoes into the super-strong Asian spot market or priced against that market, where at one point a single cargo of LNG sold for more than $US205 million ($273.2 million). Higher oil prices have also lifted prices for exported gas sold under long-term contracts.

"It's unprecedented and wonderful, obviously," Woodside chief financial officer Sherry Duhe told *The Australian Financial Review* of the prices, which drove a 19 per cent jump in the company's quarterly sales to $US1.53 billion.

"But equally, if not more exciting, is what we're expecting in Q4 ... It will be a strong quarter, based on what we're seeing to date."

LNG spot prices surged to a record of more than $US56 per million British thermal units earlier this month on the back of robust demand and a squeeze on supplies that has roiled energy markets in the UK, Europe and parts of Asia. Prices remain at about $US35/MMBTU, a massive turnaround from rates of less than $US2 at times during the June quarter last year.

The rise in crude oil prices back over $US80 a barrel is also driving up contract LNG prices, which are indexed to oil and follow in its wake about three months later, meaning LNG revenues are mostly baked in to the end of the year barring unexpected plant outages.

Santos's quarterly sales hit a record of $US1.14 billion, with its average LNG price more than double the level of the same time in 2020, surging into double figures at $10.36 per million British thermal units. That was its highest average since the March quarter of 2019 and beat Woodside's average of $US9.8/MMBTU, which compared with $US3.90 in the September quarter last year.

Santos, which is firming up a $21 billion merger with Oil Search, sold 12 cargoes based on the strong JKM benchmark Asian price for LNG from plants in Darwin and Papua New Guinea, out of 69 shipped over the three months.

"At current commodity prices, Santos should generate close to $US1.3 billion in free cash flow for the full year," Santos CEO Kevin Gallagher said.

That is 76 per cent up on 2020's $US740 million and above Santos's April estimate of over $US1 billion.

Origin Energy also this week said its payout from its 37.5 per cent Australia Pacific LNG project this financial year was tracking above August's $1 billion-plus estimate, thanks partly to three cargoes sold on the spot market.

Woodside sold six LNG cargoes into the strong Asian spot market in the quarter, and expects 17 per cent of its LNG to be sold on spot this December quarter, CEO Meg O'Neill said.

"All signs point to a strong end to the year," Bernstein Research analyst Neil Beveridge said of Woodside's outlook, pointing also to the improved prospects of a robust price for Woodside's targeted sale of a stake in the $16 billion Scarborough gas project.

Woodside chief executive Meg O'Neill said the proposed sell-downs of equity in both the Scarborough

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▶ LNG's good times may not be the last p30

A market that never sleeps ... Digital Asset Funds Management's Mike Gilbert, Clint Maddock, Colin Pickup and Dan Nicolaides. PHOTO: RHETT WYMAN

The rise and rise of the crypto arbitrageurs

Cryptocurrency It's just 10 years old. No wonder trading can be rocky.

Jonathan Shapiro

On the first Monday morning after Sydney officially emerged from lockdown, the once bustling Barangaroo district is still a ghost town.

The streets are empty, the cafes are deserted and boxes are piled up at the locked doors of the restaurants facing Darling Harbour.

But on the fourth level office suite of an otherwise empty building on Lime Street, the large curved monitor of Dan Nicolaides is alive with activity.

Arrays of numbers of tables are flickering, rows are turning yellow and a cash register noise to signify that a trade has been placed rings every few seconds.

Cryptocurrency markets literally never sleep – there are no formal trading hours. But on that sluggish Sydney morning, the screens were flickering faster than usual.

Bitcoin was testing a record high of $US64,863 amid a flurry of news reports that crypto-linked exchange traded funds were approved for launch.

"We don't care if it goes up or down, but we tend to make more money when it's moving down," explains Clint Maddock, standing behind Nicolaides' desk watching the screens.

Maddock has spent almost two decades trading equity derivatives markets at high speed using advanced systems at IMC and Tibra, which he co-founded

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▶ Crypto experts praise Bragg's report p20

Rio's green spending expected to hurt short-term earnings

Peter Ker

Big institutional investors have backed Rio Tinto's vow to ramp up spending to reduce its carbon footprint despite analysts downgrading their forecasts for its earnings in coming years.

Rio shares fell after the miner vowed to spend $US500 million (about $670 million) in each of the next three years to decarbonise its operations as part of a $US7.5 billion carbon abatement spend between now and 2030.

The plan involves building huge amounts of renewable power generation in the Pilbara iron ore province and taking Rio's total capital spend from about $US7.5 billion this year to between $US9 billion and $US10 billion in both 2023 and 2024.

At $US10 billion, Rio's annual spend would be close to double the $US5.5 billion spent across the miner's global operations in 2019.

The carbon abatement projects are not the only factor driving up Rio's future capital spending. Its West Australian iron ore business requires four new mines in the next eight years and a higher sustaining spend, while Rio is also looking to grow in copper and Serbian lithium.

Macquarie analysts downgraded their forecasts for Rio's earnings by 3 per cent for each of the years between 2022 and 2025 because of the extra spending.

"The cost to achieve these targets will result in materially higher capital expenditure compared to our base case forecasts," Macquarie analysts said in a note.

Rio's London-listed shares fell by more than 3 per cent in the hours after the plan was announced on Wednesday, compared with a 1.38 per cent decline in BHP's London-listed shares.

"Despite the increase in capex, Rio's free cash flow yields remain attractive," Macquarie said.

RBC analyst Kaan Peker said Wednesday's announcements would create short-term market sentiment around Rio shares in the short term but were a positive shift long term.

"So although we think this is the right strategy, it may take a significant amount of time for the shares to reflect this."

Abrdn portfolio manager Camille Simeon said Rio's goal was "ambitious", aligned with the Paris climate accord and was "what we like to see".

"It is really important to move early because the later you leave it, the harder it gets, and others are moving already," she said.

"I do get the questions about allocation of capital, what is the return and where is the value from that, but this is not isolated to Rio.

"Fortescue is also putting a lot of capital to work, and we don't know what the returns will be on that either.

"This will be industry-wide because of the state of this climate transition that we are at."

Rio expects some decarbonisation projects to be cash flow positive, even before the company applies a $US75 a tonne carbon price to its decision-making. One example would be the reduced future spend on diesel if vehicles and generators can be switched to renewables, battery storage or hydrogen.

Rio chief executive Jakob Stausholm said recent switches to renewable power at the Madagascar mineral sands operation and copper mines in Chile and Utah had been "economically attractive".

"It is about future-proofing our business and a number of those things actually making economic sense," he said, when asked how the abatement projects would create shareholder value.

If third-party providers of renewables were not forthcoming, Rio said it was willing to fund the 1 gigawatt of solar, wind and storage that it believes will be required to fully decarbonise its

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▶ Mining mutiny: Jupiter pair dumped p22