

The Commodities Feed: Central banks increase gold reserves

The latest data from the World Gold Council shows that central banks purchased around 800 tonnes of gold over the first three quarters of 2023 as geopolitical uncertainty pushed them to diversify more towards safety assets. The trend is likely to continue in the fourth quarter amid tensions in the Middle East



Energy – US oil inventory increased over last week

The crude oil front-month contract has been trading soft at around US\$85.7/bbl this morning as the risk premium continues to soften in the absence of any immediate danger to the oil supply from the Middle East. Oil supply remains healthy with a Reuters survey reporting that OPEC oil production increased by another 180Mbbls/d in October compared to September with higher production coming from Nigeria, Angola, Iraq and Iran. Having said that, the risk of an escalation in the Middle East cannot be ruled out and the market remains cautious on that front.

Weekly inventory data from the API shows that the US crude oil inventories increased by 1.35MMbbls over the last week; lower than the average market expectations of around 1.6MMbbls. Cushing crude oil stocks are reported to have increased by 375Mbbls. On the products side, API reported that gasoline and distillates inventories fell by 357Mbbls and 2.48MMbbls respectively,

over the week ending 27 October. The more widely followed Energy Information Administration (EIA) report will be released later today.

India's crude oil imports dropped to a YTD low of 17.4mt in September 2023 as firm prices and refinery maintenance weighed on crude oil demand. However, some reports suggest that imports may have recovered in October as refineries increased operating rates whilst some of the state refiners also increased imports to meet annual purchase obligations under the term deal.

The European gas market traded softer yesterday following the expectations of the arrival of the Ciaran storm over the coming days, which could bring down electricity demand due to infrastructure damages. Meanwhile, gas storage is running nearly full in Europe (99.3% of the capacity as of 30 October) as unusually mild temperatures have reduced the overall heating consumption in Europe.

Metals – Central banks' gold purchases increase in third quarter

The latest data from the World Gold Council (WGC) showed that the central banks increased their gold purchases to 337t over the third quarter of the year primarily due to higher buying from China (+78t), Poland (+57t), Turkey (+39t) and India (+9t). Cumulatively, purchases by central banks reached 800t over the first three quarters of the year, a record amount bought for a nine-month total as geopolitical concerns pushed central banks to increase allocation towards safety assets. Meanwhile, gold's demand from other sectors was soft. Demand for bars and coins fell 14% YoY to 296t while gold ETFs reported net outflows of 139.3t over the third quarter of the year. Global jewellery consumption fell 2% year-on-year to 516.2t in the third quarter.

Global gold demand (excluding OTC) fell 6% YoY to 1,147t in the third quarter of this year, while cumulative demand (excluding OTC and stock flows) also declined 3.2% YoY to 3,285.7t in the first nine months of the year on slowing jewellery demand, lower consumption in the technology sector and mixed performance of investment sector. However, cumulative demand (including OTC and stock flows) rose 4.7% YoY to 3,692.4t in January–September 2023. In terms of supply, the council reported reasonable growth in both mine production (+2% YoY) and recycling (+8% YoY), resulting in a higher gold supply rising by 6% YoY to 1,267t in the third quarter of the year.

Aluminium smelters in China's southern province of Yunnan are planning to reduce the output again this winter season as the hydropower supply decreases in the dry season, according to the Shanghai Metals Market (SMM). The group further added that the production cuts across four smelters will range from 9% to 40% and are expected to start in the coming days. The total capacity reduction is estimated to be around 1.15mt. Currently, the total operating capacity stands at around 5.65mt as of the end of September. Last year, Yunnan province encountered two rounds of aluminium output cuts due hydropower shortage.

Lastly, the latest LME COTR report released yesterday shows that investors decreased net bullish positions for copper by 2,783 lots for a fourth consecutive week to 30,306 lots in the week ending on 27 October, as the recent recovery in the readily available exchange inventories at LME warehouses eased tight supply concerns. A similar move has been seen in zinc with speculators decreasing the net bullish bets by 1,348 lots for a fourth straight week to 30,538 lots over the last reporting week. In contrast, money managers increased net bullish bets in aluminium by 3,014 lots for a second consecutive week to 107,510 lots over the above-mentioned period.

Agriculture – India sugar production to fall 8% YoY in 2023/24

The first advance estimates from the Indian Sugar Mills Association (ISMA) show that gross sugar production (including sugar diverted for ethanol production) in India could fall to around 33.7mt in 2023/24 compared to around 36.6mt in 2022/23 as adverse weather was seen impacting yields. The total acreage under sugarcane is expected to be around 5.7m hectares in 2023/24. Sugar allocation for ethanol production was around 4.1mt for last season and a similar allocation this year would keep net sugar production at around 29.6mt. While net sugar production is sufficient to meet the domestic demand of around 27.9mt, sugar exports from the country could fall significantly in the current season.

Ukraine's Agriculture Ministry reported that the Ukrainian winter grains plantations rose to 4.2m hectares as of 31 October, in line with last year's plantation. This includes winter wheat crop plantings rising by 6% YoY to 3.7m hectares for the above-mentioned period.

Weekly data from the European Commission shows that soft wheat exports for the season so far fell 24% YoY to 9.6mt as of 27 October, down from 12.6mt reported in a similar period a year ago. The major destinations for these shipments were Morocco, Nigeria, and Algeria. Meanwhile, the nation's corn imports fell 41% YoY to 5.6mt in the season so far.

Author

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and

which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.