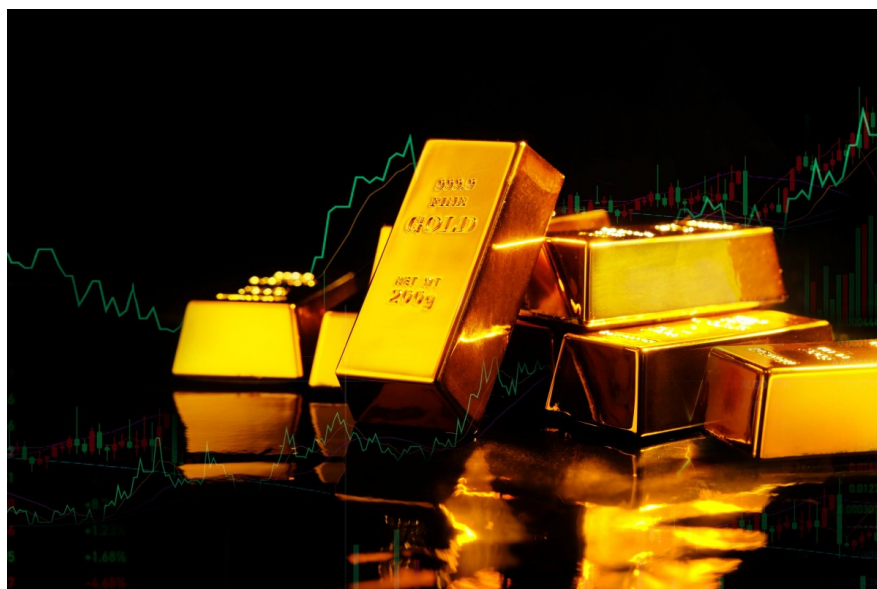


The Commodities Feed: Gold jumps on slower-than-expected US inflation

On Tuesday, gold jumped to its highest price since June after US consumer prices posted the smallest monthly gain in more than a year, sparking hopes that the US Federal Reserve will ease the pace of interest rate hikes



Energy – OPEC left supply/demand forecasts largely unchanged

ICE Brent was firm yesterday along with the broader commodity index as a softer CPI report from the US buoyed sentiment – lower inflation could push the Fed to slow down its rate hikes and support a recovery in commodities. The Fed is expected to hike rates by 50bp later today. Supply disruptions and the easing of Covid-19 curbs in China provided further support.

The monthly oil market report released from the OPEC group yesterday was largely flat for the oil market. The group left demand growth estimates largely unchanged for both 2022 at around 2.5MMbbls/d and 2023 at around 2.2MMbbls/d although it made some adjustments to quarterly demand numbers. The group revised down demand estimates for the first quarter of 2023 from 101.3MMbbls/d to 100.9MMbbls/d and it revised higher demand estimates for the third quarter with similar numbers. Similarly, the group left non-OPEC supply growth estimates largely unchanged at around 1.9MMbbls/d for 2022 and 1.5MMbbls/d for 2023. The group maintained its

estimates for OPEC crude oil supply requirements at around 29.22MMbbls/d for 2023 compared to around 28.59MMbbls/d for 2022.

The weekly inventory report from the API was bearish for the oil market. The API reported that US crude oil inventories increased by 7.82MMbbls over the last week, compared to market expectations of roughly 3.9MMbbls of withdrawals. The API also reported that gasoline and distillate fuel oil stocks increased by 0.9MMbbls and 3.9MMbbls, respectively, over the week. The official EIA report will be released later today.

Metals – softer inflation supports gold rally

Yesterday's US inflation report helped gold prices to rally strongly, rising to a near six-month high of US\$1,820/oz as a slowdown in rate hikes could increase the investment appeal of gold in the longer term. [US retail inflation slowed](#) from 7.7% in October to 7.1% in November whilst core inflation dropped to 6% compared to 6.3% in October. Whilst inflation is still higher than the Fed's comfortable range, softening of inflation reinforces the view that the peak of the rate-hike cycle might be in sight. The interest rate hike this year has pushed investment money away from gold as investors chased higher returns (along with safety) in US treasuries. Total known gold exchange-traded fund (ETF) holdings have dropped by around 13.2mOz from the peak in April this year as the Fed hiked interest rates. A slowdown in rate hikes or the possibility of rate cuts later in 2023 could reverse the trend and help bring investment money back into gold ETF.

Copper traded with high volatility yesterday as low inflation in the US boosted sentiments and pushed LME copper prices to above US\$8,600/t at one point, although the rally was quickly followed by a sell-off with LME copper settling at US\$8,497/t, still up 1.5% for the day. LME aluminium and zinc also witnessed similar price action as expectations of a slowdown in rate hikes led to optimism.

The time spread of LME nickel contracts has widened significantly this week to US\$280-290/t of contango as the illiquidity in the spot market makes it challenging for traders to roll-forward long positions without a huge discount. The spread was only around US\$100/t at the start of the month. Weaker demand for nickel in the physical market and higher borrowing costs have further accentuated the issue.

Agriculture – Russia targets 80mt-85mt of wheat harvest next year

The Russian Agriculture Ministry said that the nation is aiming for an 80-85mt harvest target for wheat next year and a total grain harvest of around 125-127mt. These initial targets from Russia are lower compared to the harvest in 2022 and may tighten the global market if realised.

The Ukraine Agriculture Ministry said that as the harvesting of grains is nearing completion in the nation, the farmers have harvested 17.2mt (66%) of corn as of 13 December, with a yield of 61.9 centners per hectare. Meanwhile, wheat harvest stood at 19.4mt (100%) during the abovementioned period, with a yield of 41.2 centners per hectare.

Weekly data from the European Commission shows that soft wheat shipments from the EU rose 6% year-on-year and reached 15.4mt as of 12 December, up from 14.5mt for the same period last year. Morocco, Algeria and Egypt were the top destinations for these shipments. Meanwhile, given lower domestic output, EU corn imports increased to 13.1mt, compared to around 6mt last year.

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.