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CREATING OPPORTUNITIES

# Commodities Monthly Outlook

6 August 2024

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## Commodity price dynamics

Commodity	Price	Change, m/m*	Change, YTD	Price change from January 2021 up to date
<b>Ammonium Nitrate</b> US\$/ton	<b>230.0</b>	<b>+4.5%</b>	<b>+27.8%</b>	
<b>Brent Oil</b> US\$/bbl	<b>80.7</b>	<b>-6.6%</b>	<b>+4.8%</b>	
<b>Copper</b> US\$/ton	<b>9,102.3</b>	<b>-3.7%</b>	<b>+7.5%</b>	
<b>Ferrosilicon (China)</b> US\$/ton	<b>1,325.0</b>	<b>+0.8%</b>	<b>-0.7%</b>	
<b>Ferrosilicon (Europe)</b> US\$/ton	<b>1,459.2</b>	<b>-7.4%</b>	<b>+5.5%</b>	
<b>Gold</b> US\$/troy oz	<b>2,447.6</b>	<b>+5.2%</b>	<b>+18.6%</b>	
<b>Natural gas</b> US\$/mwh	<b>38.1</b>	<b>+1.6%</b>	<b>+22.1%</b>	
<b>Wheat</b> US\$/ton	<b>210.0</b>	<b>-4.5%</b>	<b>-19.9%</b>	

Source: Bloomberg

Note: prices as of 31 July, 2024

\*m/m prices reflect end of month figures



# Energy

## Brent oil

In July 2024, Brent oil price was down 6.6% m/m. There were quite a few bullish events during the month, but oil maintained a consecutive 4-week decline, closing the month at US\$ 80.7 per barrel. Falling US inventories and escalating tensions in the Middle East failed to counter the bearish sentiment of sluggish demand from key consumers.

Crude oil inventories fell for the 5th consecutive week in the US. However, persistent declines were not sufficient to ignite a rally in oil prices as the investors kept a closer attention to macroeconomic factors in large economies. Purchasing Manager's Index (PMI) showed slow manufacturing activity in Asia, Europe and the United States. The latter's figure dropped to lowest in 8 months at 46.8, while the Eurozone reading stood even lower at 45.8. In general, reading below 50.0 indicates contraction. China used to do better in recent months, but its figure also dipped below 50 in July, quickly translating into lower oil prices as the Asian nation remains the world's largest importer of the commodity.

As of now, worries about the world demand is a dominant force and drags prices lower. However, there are a few factors that may push Brent price higher in upcoming months. The Middle East conflict intensified when Hezbollah's attack on Golan Heights killed 12 children. Israel, declaring Hezbollah had "crossed the red line," retaliated by killing a senior Hezbollah commander and a Hamas leader in Lebanon and Iran. The strike in Iran threatens to drag the region into a wider war. News sent oil prices spiking – gaining 4.3% in a single trading session. According to the New York Times, Iran's supreme leader, Ayatollah Ali Khamenei ordered direct retaliatory strikes on Israel. Although it has yet to materialize in a real attack, escalation will provide a significant upward force for the Brent prices as the region is an important supply hub of oil.

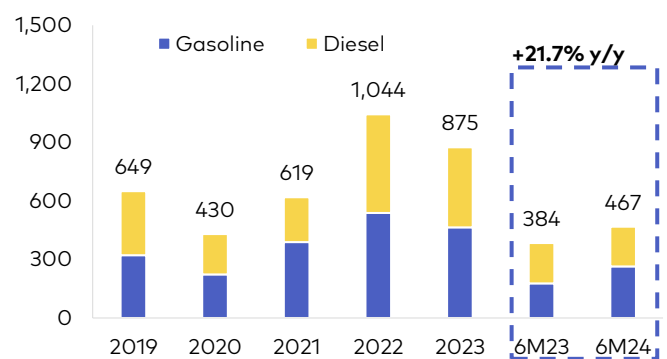
Moreover, although demand is muted, prospects may look a bit promising. Fed is expected to start cutting interest rates in September. Monetary easing is likely to boost the economic activities in US, partly translating into higher demand for oil.

**Figure 1: Brent oil Continuous Contract (BRN00), US\$/bbl**



Source: Bloomberg

**Figure 2: Oil products import to Georgia, US\$ mn**



The volume of gasoline and diesel import increased by 7.2% y/y in 6M24 and reached 570 tons, equivalent to US\$ 467mn. Average import price grew by 13.6% over the same period.

Source: Geostat



# Energy

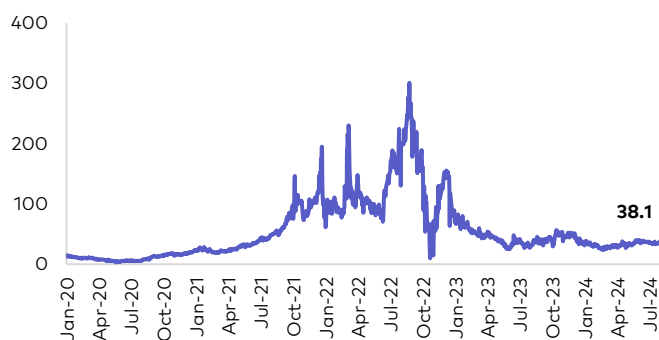
## Natural gas

In July 2024, natural gas price was up 1.6% m/m. Hottest summer on record seems to have done only a little to boost the prices. Despite the surge in power-generation demand to ensure sufficient electricity for cooling, natural gas market successfully provided enough supply. Moreover, the US produced so much gas that it pushed domestic prices to record lows. According to figures, natural gas has not been so cheap during the summer months in the US since the 1990s.

Lower prices prompted producers to cut production with expectations of further cuts in autumn. American producers have already proved their flexibility by easily adjusting output levels to price movements. Notably, they are expected to bring back more supply on the market in 2025 as the prices are likely to elevate from current levels due to several factors. Firstly, there are quite a few major LNG export terminals set to start operating next year, lifting demand for US gas. Secondly, analysts expect higher demand from power sector as the data centers and AI likely to require substantially more electricity – translating into needing more natural gas for increasing output of thermal power plants. Natural gas remains a dominant force of electricity for the US. Over the years, its share in total electricity mix stood at around 40%, jumping to 42% so far this year prompted by lower prices.

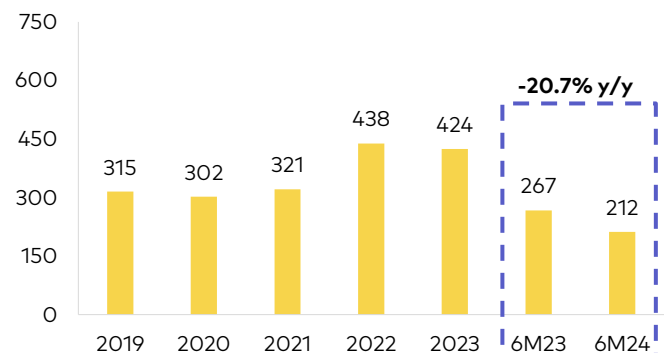
Over the past two decades, LNG market has become one of the fastest growing industries in the energy sector. The growth is expected to continue with global LNG demand increasing by more than 50% by 2040 according to Shell. The boom is not unnoticed by Russia, who is trying to establish itself as one of the key players on the market. However, it has been a rough year so far for the Russian gas producer and LNG exporter – Novatek. The firm’s natural gas sales (incl. LNG) from existing terminals fell by 2.6% y/y in 2Q24, while starting operations in its flagship Arctic LNG 2 project stalls. The project is of crucial importance for Russia as it is expected to lift the country’s share in global LNG market from 8% to 20% by 2030-35. However, US sanctions imposed specifically on Arctic LNG 2 urged foreign shareholders to suspend participation in the project, effectively leaving it with insufficient financing and contracts.

**Figure 3: Natural gas price (ICE Endex Dutch TTF), US\$/mwh**



Source: Bloomberg

**Figure 4: Natural gas import to Georgia, US\$ mn**



The natural gas import value decreased by 20.7% y/y in 6M24 and was mostly driven by the lower import price as the volume decreased only by 7.0% y/y.

Source: Geostat



# Precious metals

## Gold

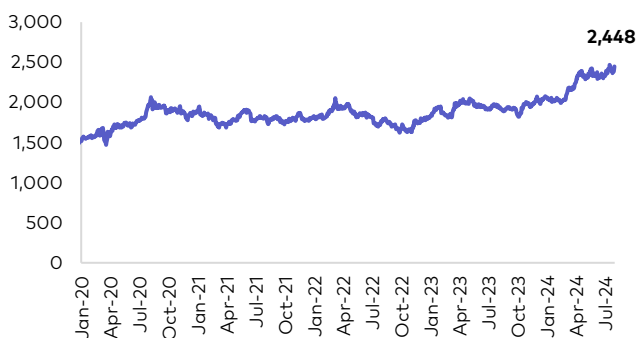
In July 2024, gold price was up 5.2% m/m. Combination of geopolitical uncertainties (Trump shooting, escalation in the Middle East), favorable economic indicators (US inflation data, Fed rate cut optimism), and heightened rush to the safe haven pushed gold price above another record high in July.

Trump shooting spurred traders into "Trump Trades", a common name for the trades that would benefit by Donald Trump retaking the office in November elections. Before Joe Biden dropped out from the presidential race, many thought the attack on Trump and the iconic picture that emerged from it would almost guarantee the former president his election win. Therefore, investors rushed to assets that would gain from Trump presidency. Notably, per Bloomberg survey, gold is the best portfolio hedge in case Trump retakes the White House. Later in the month, when Kamala Harris emerged as the potential replacement of Biden, Trump Trades subdued. However, the demand for gold remained strong amid other global risks and uncertainties, primarily driven by Middle Eastern conflict. As discussed on page 3, prospect of wider war in the Middle East flocked investors to safe assets, primarily gold.

Along with the global risks, macroeconomic factors played a favorable role for the prices. Softening US inflation created a hope for a Fed rate cut as early as September. Traders closely watched the outcome of the latest Federal Reserve meeting and looked for any clues of upcoming cuts. There was no need for much looking as Jerome Powell openly confirmed the cut may happen in September if the economy follows its expected path. Later US jobs report data showed weaker figures than expected, creating worries about possible recession and translating into global stock sell-off. Consequently, analysts expect three rate cuts by December 2024, two of which likely to be 50bps.

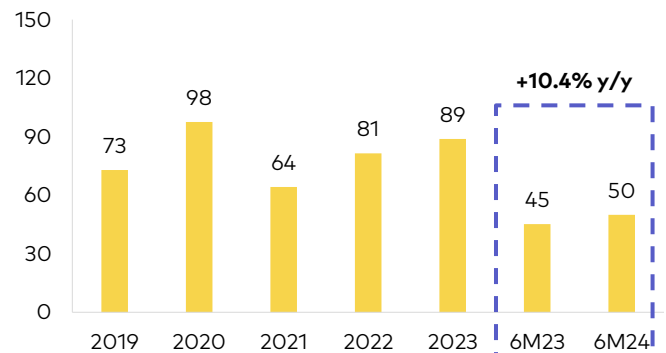
World Gold Council (WGC) released its quarterly recap of the market, according to which, over-the-counter (OTC) transactions of gold were up 53% y/y, reaching 329 tons in 2Q24. Figures hint at rise in interest coming from the wealthy individual investors who purchase physical gold with the primary goal of anonymously diversifying risks. Notably, flows into gold-backed ETFs (exchange traded funds) have also turned positive in recent weeks.

Figure 5: Gold price, US\$/troy ounce



Source: Bloomberg

Figure 6: Gold export from Georgia, US\$ mn



The gold exports increased by 10.4% y/y in value terms, while volume was down 10.1% y/y in 6M24. Notably, following the global price surge, average export price was up by 22.8% y/y in 6M24.

Source: Geostat



# Agriculture

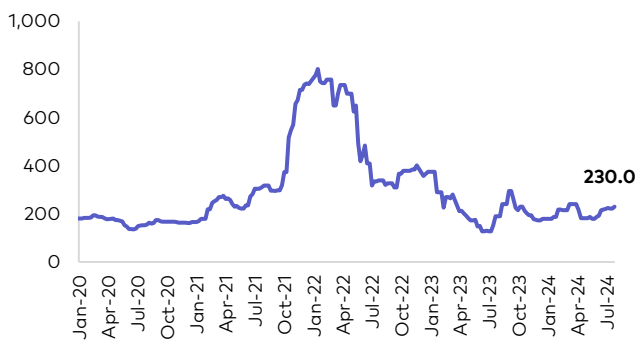
## Ammonium nitrate

In July 2024, ammonium nitrate price was up 4.5% m/m. Supply of some nitrogenous fertilizers, specifically urea turns tight. China has limited its exports for months already, resulting in 87% y/y drop in exported volume in 1H24. In addition, production disruptions in Egypt add on to the supply problems. In order to counter the issues of power grid caused by summer temperatures, Egyptian government routed its natural gas supply to thermal power plants instead of fertilizer production. Consequently, some producers need to work on lower capacities while others temporarily halted operations.

## Wheat

In July 2024, wheat price was down 4.5% m/m. Chinese domestic market weighs heavily on the global wheat prices. Heavy rainfall in northern China urged farmers to sell their wheat as soon as possible not to have it damaged by future worse weathers. On the contrary, due to weak economy demand on flour is low. Consequently, ample supply and poor demand translated into local prices that are near 3-year lows. Government set to increase state purchases in order to support domestic prices, but this would limit demand for import, adversely affecting global prices.

**Figure 7: Black Sea ammonium nitrate spot price, US\$/ton**



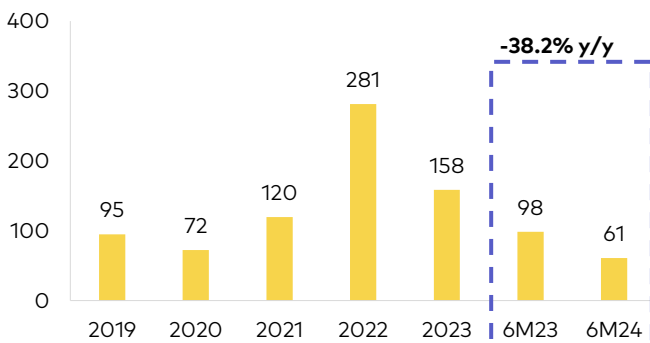
Source: Bloomberg

**Figure 8: Black Sea Wheat Financially Settled (Platts) Futures, US\$/ton**



Source: Bloomberg

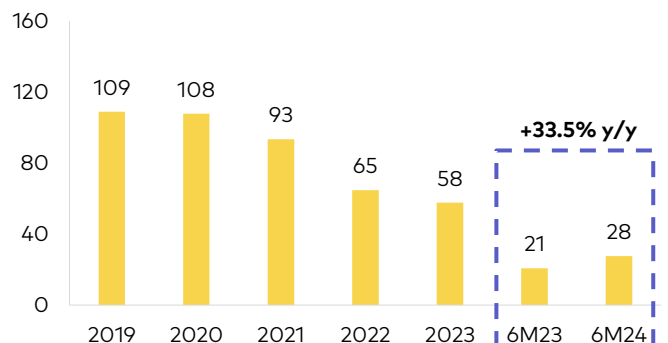
**Figure 9: Nitrogenous fertilizers export from Georgia, US\$ mn**



The nitrogen fertilizers export value decreased by 38.2% y/y in 6M24. Notably, the decline was driven by significantly reduced average price (-44.1% y/y), as the export volume increased by 10.7% y/y.

Source: Geostat

**Figure 10: Wheat import to Georgia, US\$ mn**



Wheat import value increased by 33.5% y/y in 6M24, while the volume increased by a significant 69.1% y/y, driven by the lower average import price (-21.1% y/y).

Source: Geostat



# Metals & ores

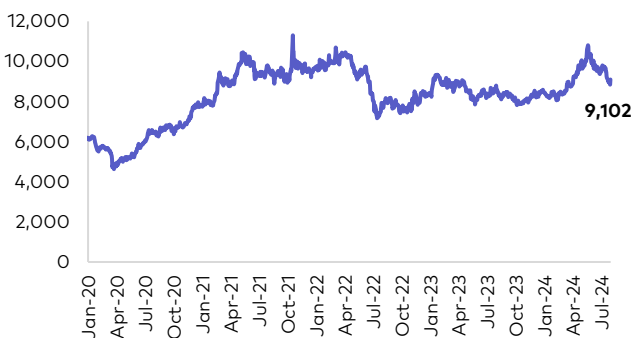
## Copper ores and concentrates

In July 2024, copper price was down 3.7% m/m. The price is down by c. 20% since the record high above \$11,000 achieved in May 2024. Since then, the outlook for Chinese economy has weakened, the government failed to introduce enough measures and initiatives to boost the domestic consumption, thus investors closed out US\$ 20bn worth of long positions on copper. In addition, global sell-off driven by US recession fears and tech-sector weakness (major consumer of copper) likely to weigh on prices in a short term. However, upcoming rate cuts by Fed should boost the industrial activities, partly translating into more copper demand.

## Ferrosilicon

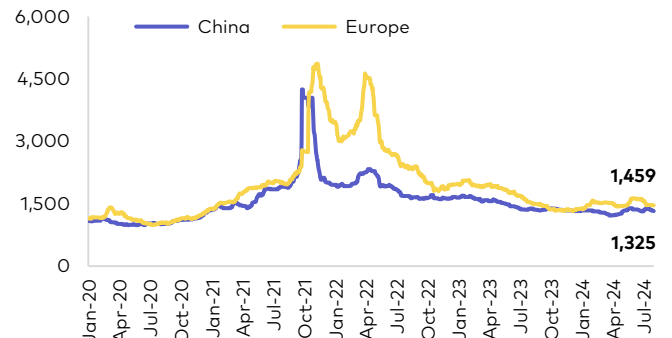
In July 2024, European ferrosilicon price was down 7.4% m/m, while its Chinese counterpart gained 0.8% m/m. Steel and raw material prices have dipped due to slow summer period in Europe paired with weak demand. Upcoming rate cuts by major central banks may offer some support, but less likely to have any meaningful impact on Chinese prices as the local economy remains slow to recover. Special bonds issued by the government will not reach infrastructure projects until 4Q, therefore no significant support is expected for Asian prices in 3Q24.

**Figure 11: LME copper spot price, US\$/ton**



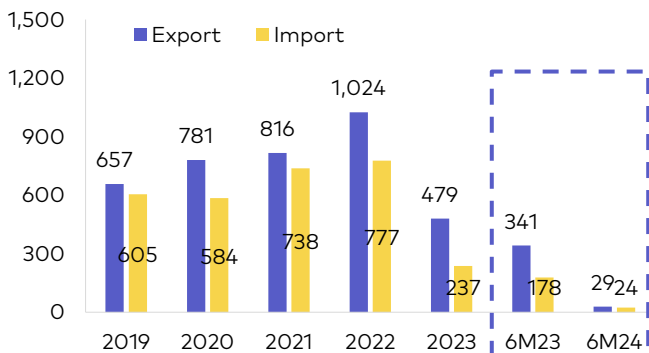
Source: Bloomberg

**Figure 12: Ferrosilicon (75% grade) price, US\$/ton**



Source: Bloomberg

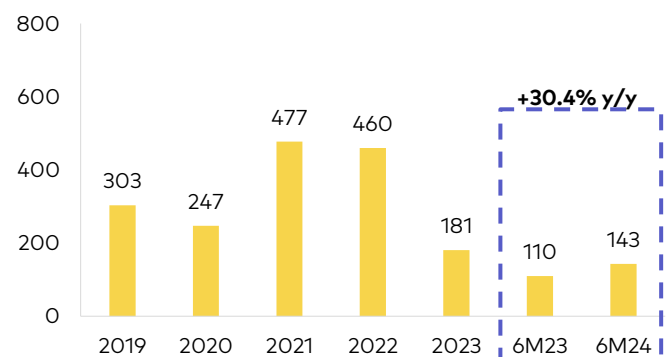
**Figure 13: Copper (including ores) external trade of Georgia, US\$ mn**



As the majority of copper external trade is driven by re-export, it largely depends on external factors. Following the gradual decline in 2023, import, as well as export are almost negligible in 6M24.

Source: Geostat

**Figure 14: Ferroalloy export from Georgia, US\$ mn**



The ferroalloy export value increased by 30.4% y/y in 6M24, while the export volume increased by 47.5% y/y. Despite the positive figures, local producers are still not working at full capacity, hinting at higher growth prospects.

Source: Geostat



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