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CREATING OPPORTUNITIES

Commodities Monthly Outlook

10 July 2024

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Commodity price dynamics

Commodity	Price	Change, m/m*	Change, YTD	Price change from January 2021 up to date
Ammonium Nitrate US\$/ton	220.0	+17.3%	+22.2%	
Brent Oil US\$/bbl	86.4	+5.9%	+12.2%	
Copper US\$/ton	9,456.0	-4.6%	+11.7%	
Ferrosilicon (China) US\$/ton	1,315.0	-3.7%	-1.5%	
Ferrosilicon (Europe) US\$/ton	1,575.3	-3.2%	+13.9%	
Gold US\$/troy oz	2,326.8	-0.0%	+12.8%	
Natural gas US\$/mwh	36.2	-5.3%	+15.9%	
Wheat US\$/ton	220.0	-6.4%	-16.1%	

Source: Bloomberg

Note: prices as of 28 June, 2024

*m/m prices reflect end of month figures



Energy

Brent oil

In June 2024, Brent oil price was up 5.9% m/m. Fears of a wider Middle East conflict turned some traders bullish. Per Israeli officials, ground operation in Rafah (city in Gaza) is nearing its end. Hezbollah and Israeli troops have been exchanging fire since the start of the conflict, but the full-blown war will be a new escalation of Middle Eastern situation. The effect on oil price is still relatively limited as neither party is a crucial supplier of oil. However, if the war widens and drags Iran into it, the effect will be much larger.

Along with the geopolitical risks, potential cataclysmic events inflate prices. Hurricane season of North America made its unusually early appearance in June with Hurricane Beryl being the earliest Category 5 Atlantic hurricane on record. They usually start later in the summer when the ocean temperature increases, but due to record-breaking heat, the season has already begun, with more major hurricanes expected to follow. This may disrupt the production and refinery operations along the continent's eastern shore, especially the Gulf of Mexico – basin of oil production.

North American production is an important supply component of the global oil trade. Especially after the production outside OPEC+ is on the rise, led by the United States. Notably, OPEC+ share in total production dropped to 48.5%, lowest since its inception in 2016. Along with rising output elsewhere, it was due to large voluntary cuts, some of which may return on market starting from October 2024. However, the decision will be revised if the global economy and demand dynamics underperform.

Rising oil prices eventually translate into higher gasoline prices. As we mentioned a few times before, this is not in the best interest of Biden's administration as the presidential election approaches in the US. With the rising costs and inflation on the voters' minds, President is likely to act in some way. One of the most obvious steps is using the nation's strategic petroleum reserve (SPR) as Biden has already done it at least twice. First, it was after the pandemic when the prices started to rise due to demand-supply mismatch, and then a larger release due to Russia-Ukraine war.

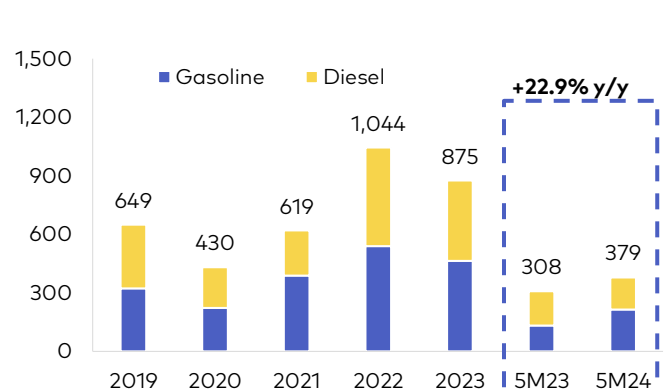
In market's other news, Russia lifts gasoline export ban for another month. Starting from March 1, Russia banned all gasoline exports for 6 months, aimed to stabilize the local market following the Ukrainian strikes on refiners. On 20 May 2024 country lifted the ban until June 30, but later announced the decision to extend till end-July 2024, as the local market remains well supplied. If no major disruptions happen, export ban is likely to remain lifted.

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 8.2% y/y in 5M24 and reached 460 tons, equivalent to US\$ 379mn. Average import price grew by 13.6% over the same period.

Source: Geostat



Energy

Natural gas

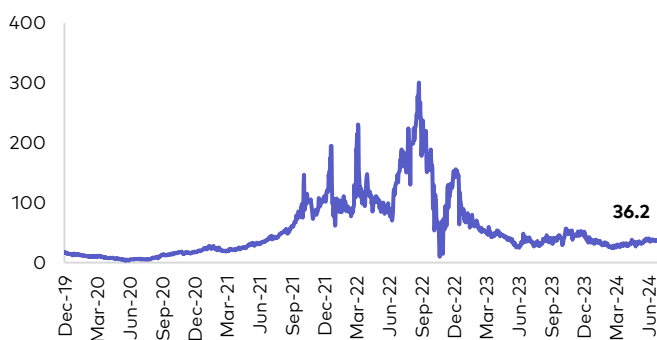
In June 2024, natural gas price was down 5.3% m/m. Despite some minor ups and downs in the price, there were a few important political events for the industry during the month. The news primarily came from Russia, EU, and United States.

Russia's share in EU gas imports may further decline. Five-year agreement between Russia and Ukraine to transit the gas to Europe expires at the end of this year. According to the officials, neither Ukraine, nor EU are interested in signing a new deal. Especially after Ukraine sealed a deal with US firm, securing LNG shipments. While providing Ukraine with a new stable source of gas, the deal also strengthens energy security of Eastern Europe and Europe as a whole.

Additionally, after losing the EU gas market, Russia struggles to find a stable large customer for its exports. Deal with China about the Power of Siberia 2 project is still not close to finalizing. Meanwhile, EU banned re-exports of Russian liquefied natural gas (LNG). Although these volumes did not represent a large share of Russian LNG exports, decision still further weakens its reach to some markets. In order to counter the sanctions and exploit loopholes, Russia is trying to build a shadow fleet for gas. Shadow fleets have been successful in transporting oil, but will be much more difficult to use it for LNG shipments. Firstly, specialized LNG transporters are much less in numbers compared to oil tankers. Secondly, oil can be transferred from one tanker to another in the middle of the ocean, masking the origin. However, same process for the super-cooled LNG is a lot trickier, hardly possible.

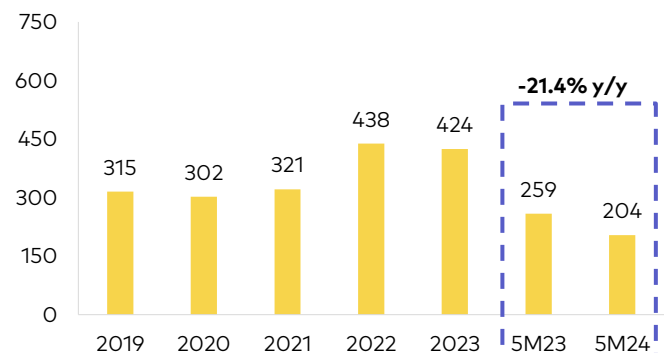
As the US role in the supply chain grows, its energy politics is the crucial part of global LNG flow. Earlier this year Biden administration halted approvals for new export licenses for LNG, following the pressure from climate activists. Energy Department claimed the already approved licenses would not be affected, hence the gas supply to its strategic partners would continue uninterrupted. Industry players argued the decision would affect the trust in US supplies in the long term. In early July, federal judge halted the moratorium on new licenses, saying the Administration's decision has no "reason or logic". Although the court decision will not immediately affect the new license approvals, it is an important event for the global gas industry.

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 21.4% y/y in 5M24 and was mostly driven by the lower import price as the volume decreased only by 7.4% y/y.

Source: Geostat



Precious metals

Gold

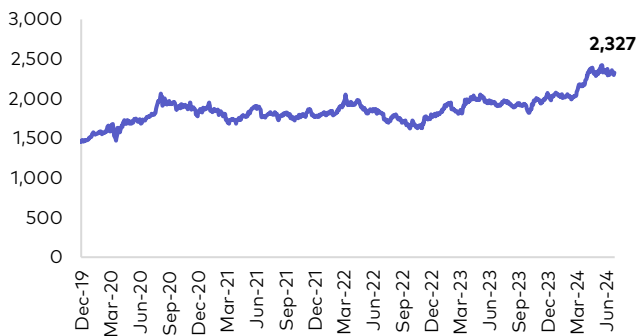
In June 2024, gold price was stable with minor ups and downs, closing the month flat m/m at US\$ 2,327 per troy ounce. Earlier in the month, price tumbled below US\$ 2,300 due to surprising strength in the US jobs report data. As the jobs growth and wages exceeded expectations, hope for the nearing rate cut faded. Federal Reserve officials said they need more evidence that inflation is easing until proceeding with cutting rates. As of now, market expects the cut to happen no sooner than December 2024.

Another factor adversely impacting the investors' sentiment is Chinese central bank halting its 18-month buying spree. People's Bank of China has been increasing its gold reserves since November 2022, but did not buy any precious metal in May and June 2024. Although the news dragged price lower, analysts expect the halt to be temporary. Per Saxo Bank, China "is nowhere near done buying gold".

Demand from other central banks remain strong, with expectations hinting at more future purchases. World Gold Council (WGC) conducted a survey among central banks, where 81% of respondents indicated that they expect increasing gold holdings in the next 12 months. Notably, 13% of advanced economies plan to increase their gold holdings, highest level since the survey began. Until now, emerging markets were the drivers of central bank purchases. Main reason the institutions hold gold are its long-term value, performance during crises, and effective reserve diversification.

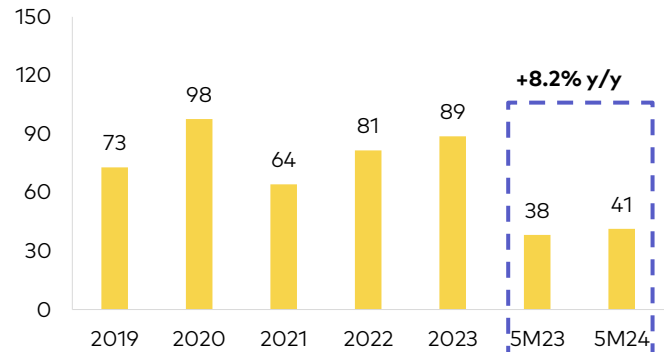
Central banks bought more than 1,000 tons of gold in both 2022 and 2023. The buying momentum spilled in 2024 too, giving sufficient support and boost to the price, that reached a new record high - US\$ 2,450 per troy ounce in May.

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



Source: Bloomberg

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



The gold export volume was down 10.9% y/y in 5M24. Notably, following the global price surge, average export price was up by 21.4% y/y in 5M24.

Source: Geostat



Agriculture

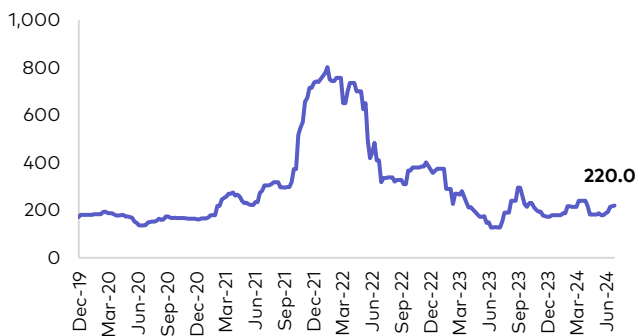
Ammonium nitrate

In June 2024, ammonium nitrate price was up 17.3% m/m. As natural gas is a primary component of nitrogenous fertilizers' production, their prices are highly correlated. Following a 20.4% m/m surge of natural gas price in May 2024, ammonium nitrate price growth in June was largely anticipated. Despite the notable gain, market is finally stabilizing after years of disruptions, according to Nutrien – top fertilizer maker. As the firm claims, destructed demand during the record-high prices is finally returning. However, shipping still remains an important challenge amid ongoing Red Sea crisis.

Wheat

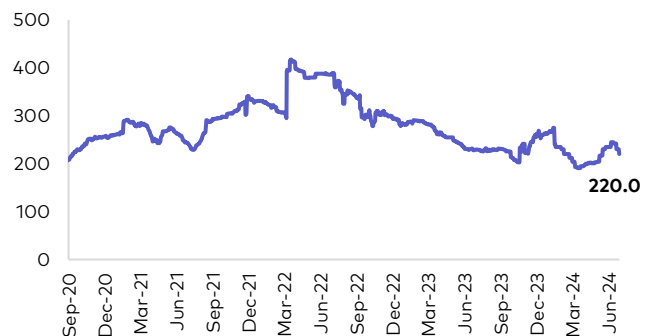
In June 2024, wheat price was down 6.4% m/m. Despite the decline, supply outlook for the global wheat remains gloomy. Per our previous outlook, Ukraine and Russia are set to harvest lower volumes of wheat due to weather conditions. Additionally, record rainfall in June endangered crop yields in UK and France, two major producers in Europe. Notably, drought is threatening the grain output in China too. Beijing stayed away from the large purchases on global market in recent months due to domestic oversupply. However, falling yields may force the country to re-enter the global trade.

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



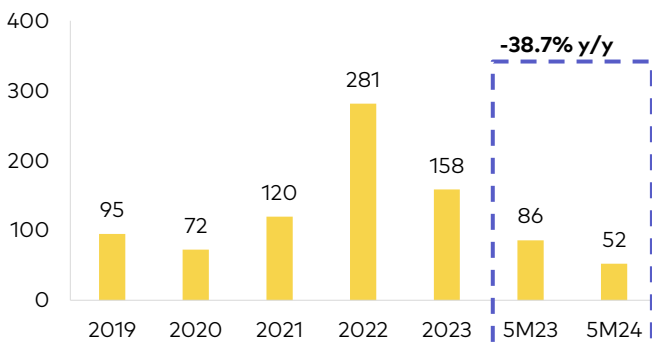
Source: Bloomberg

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



Source: Bloomberg

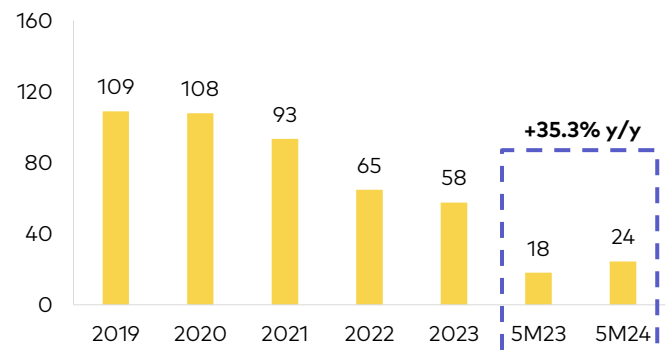
Figure 9: Nitrogenous fertilizers export from Georgia, US\$ mn



The nitrogen fertilizers export value decreased by 38.7% y/y in 5M24. Notably, the decline was driven by significantly reduced average price (-49.2% y/y), as the export volume increased by 20.8% y/y.

Source: Geostat

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



Wheat import value increased by 35.3% y/y in 5M24, while the volume increased by a significant 75.9% y/y, driven by the lower average import price (-23.1% y/y).

Source: Geostat



Metals & ores

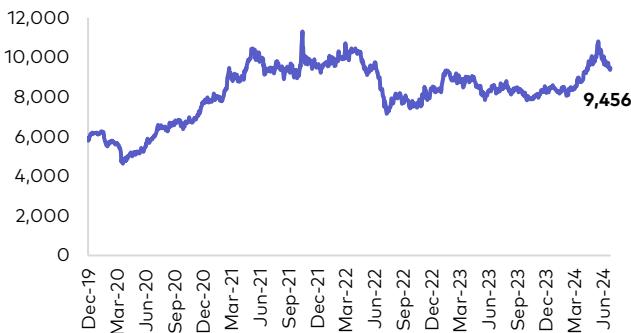
Copper ores and concentrates

In June 2024, copper price was down 4.6% m/m. The spring rally that saw copper prices surge over record-breaking US\$ 11,000 per ton has relatively cooled. The growth was driven by the speculators betting billions of dollars on copper deficit. However, higher prices forced manufacturers to delay purchases, partly alleviating the potential shortage. Due to this, copper inventories in China grew to highest level in early June since 2020. As the prices slowly declined, some consumers returned on the market, translating into falling inventory in China by the month-end. Despite the recent price dynamic, long-term forecast of the red metal remains bullish amid potential supply-demand mismatch.

Ferrosilicon

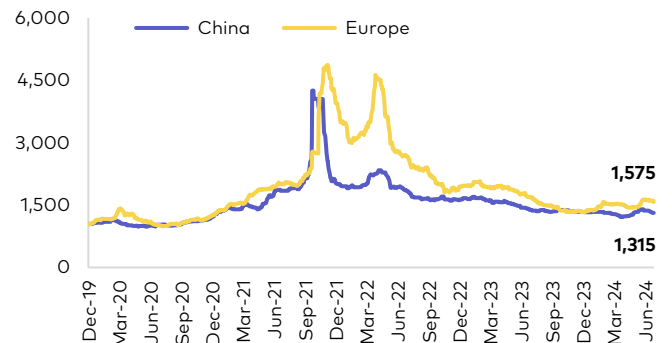
In June 2024, European ferrosilicon price was down 3.2% m/m, while its Chinese counterpart lost 3.7% m/m. Meanwhile, silico-manganese gained 18.9% m/m. Sudden jump is attributed to surge in manganese prices, following the world's second-largest mine's closure in Australia due to severe storm. Although both metals are used in steel production, momentum of silico-manganese is likely to have only a limited effect on ferrosilicon price due to their different characteristics. On the demand side – Chinese steel production (and its demand) remains muted, creating downward pressure on prices.

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



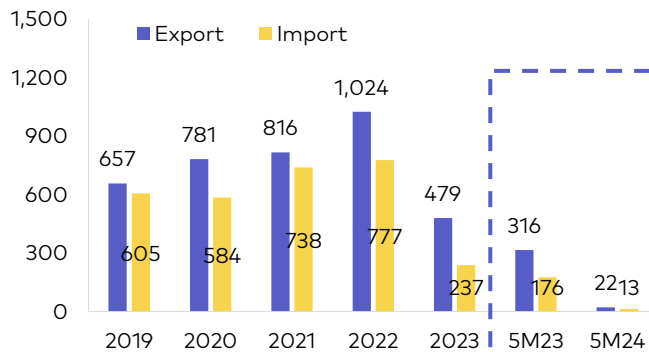
Source: Bloomberg

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



Source: Bloomberg

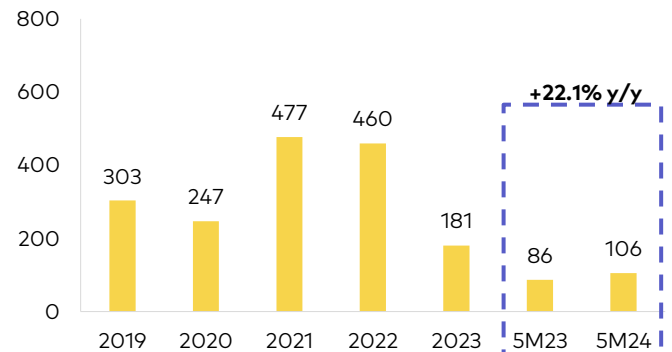
Figure 13: Copper (including ores) external trade of Georgia, US\$ mn



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 5M24.

Source: Geostat

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



The ferroalloy export value increased by 22.1% y/y in 5M24, while the export volume increased by 41.3% y/y. It might be a hint to recovering export volumes, but more stable and continuous figures needed to make conclusions.

Source: Geostat



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