



GALT & TAGGART
CREATING OPPORTUNITIES

Commodities Monthly Outlook

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Eva Bochorishvili

Head of Research | evabochorishvili@gt.ge | +995 322 401 111 ext.8036

Kakhaber Samkurashvili

Head of Sector Research | ksamkurashvili@gt.ge | +995 322 401 111 ext.4298

Sergi Kurashvili

Senior Analyst | s.kurashvili@gt.ge | +995 322 401 111 ext.3654



Commodity price dynamics

Commodity	Price	Change, m/m*	Change, YTD	Price change from January 2021 up to date
Ammonium Nitrate US\$/ton	187.5	+2.7%	+4.2%	
Brent Oil US\$/bbl	81.6	-7.1%	+5.9%	
Copper US\$/ton	9,913.4	+0.2%	+17.1%	
Ferrosilicon (China) US\$/ton	1,365.0	+3.8%	+2.2%	
Ferrosilicon (Europe) US\$/ton	1,627.1	+12.9%	+17.6%	
Gold US\$/troy oz	2,327.3	+1.8%	+12.8%	
Natural gas US\$/mwh	38.2	+20.4%	+22.4%	
Wheat US\$/ton	235.0	+15.8%	-10.4%	

Source: Bloomberg

Note: prices as of 31 May, 2024

*m/m prices reflect end of month figures



Energy

Brent oil

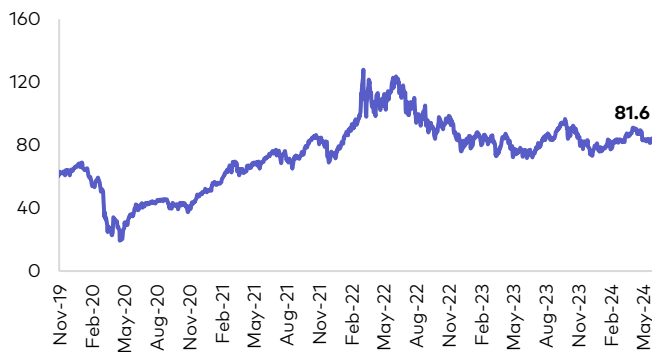
In May 2024, Brent oil price was down 7.1% m/m to US\$ 81.6 per barrel. Sell-off in April and early May was driven by the concerns over health of the global economy and oil demand. Anticipation of truce between Israel and Gaza also helped lowering prices, but later the national security adviser of Israel said the war is likely to last another seven months, keeping the geopolitical tensions high. Other key topics for the traders included OPEC+ meeting and any early signs of oil demand due to summer driving season.

On the supply side OPEC+ members extended most of their production cuts by the end of 2025, a move well-anticipated by the traders. However, there still was one unexpected twist – some members may gradually increase output starting from October 2024. Although the total volume of this gradual increase will be c. 1/3 of the total cuts that are in place right now, it may still have a notable impact on the supply-demand dynamics. This resulted in Brent price slipping by c. 3% on Monday, June 3rd. Notably, the decision may be reversed until October, depending on how the global economy performs and whether the demand picks up sufficiently.

On the demand side prospects look promising. Memorial Day weekend (25-27 May) marks the unofficial beginning of the summer driving season. According to the American Automobile Association, number of travelers that flew on that weekend may be the highest in nearly 20 years, feeding the jet fuel demand. In addition, jet fuel demand has increased to the highest 4-week average since 2019. The strong figures are expected to persist in summer months for the jet fuel demand, but may be less positive for the gasoline. Despite this, per Bloomberg, rising flight numbers are expected to offset the weaker gasoline demand and support the oil price.

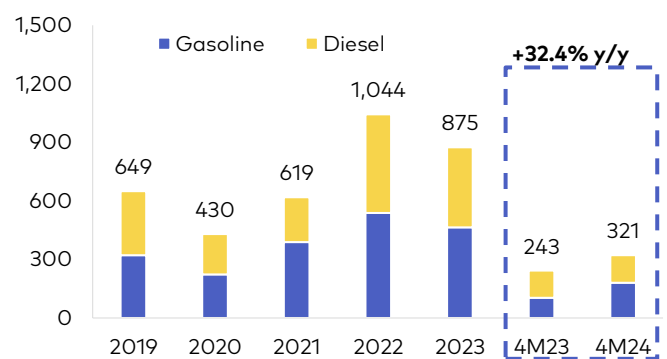
In market's other news, wave of megadeals and consolidation persists in the US energy sector with the latest announcement ConocoPhillips buying Marathon Oil and further strengthening its position as one of the world's biggest oil and gas producers. Massive acquisitions started last October with ExxonMobil and Chevron announcing deals worth US\$ 60bn and US\$ 53bn, respectively.

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 17.5% y/y in 4M24 and reached 393 tons. Average import price grew by 12.7% over the same period.

Source: Geostat



Energy

Natural gas

In May 2024, natural gas price was up 20.4% m/m. The rally was fueled by traders betting on rising gas prices. Net long positions on European gas benchmark – Dutch TTF rose to highest since February 2022 when Russia launched the full-scale war in Ukraine. During the following energy crisis Europe managed to divert from being dependent on Russian gas by increasing purchases of liquified natural gas (LNG) that helped prices to stabilize. However, the process exposed continent to competition with other LNG buyers – particularly Asia.

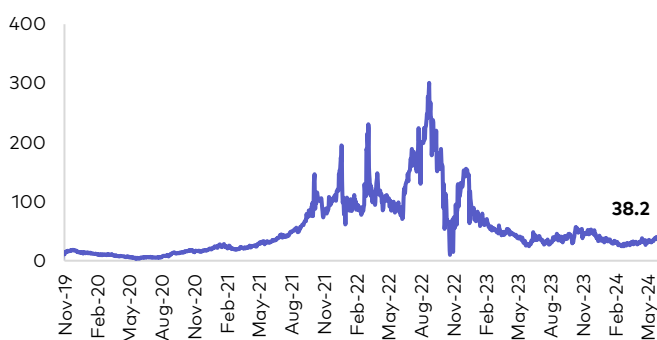
In our previous review, we stated that the energy crisis may be over only after Europe and Asia source enough supplies during the simultaneous cold winter. However, they may be required to do so well before the cold months. Natural gas plays an important role in heating during the winter months, but is also a significant contributor in cooling during summer. Upcoming summer is forecasted to be the hottest on record, boosting the expected demand of natural gas. The anticipated rise in demand already shows some early signs. For example, Egypt which typically is an exporter country resorted to buying LNG in order to avoid blackouts during hotter months. Indian demand is also on the rise, driven by the consumption of power sector.

Hot oceans lead to hurricane season in North America, threatening the US production of LNG, key supplier of Europe. In addition, due to drought, hydropower generation in Latin America will likely decrease, thus resorting to thermal power plants. Both supply components combined with competition of European and Asian customers may translate into 50-60% increase in natural gas prices, per Citigroup.

In addition to fundamentals, some unexpected factors also help swing the market. On Monday, June 3rd, European gas prices jumped 13% and reached highest level of 2024 in a matter of hours following the outage in one of Norwegian gas processing plants. Norway accounted for 30% of gas supplies of EU in 2023.

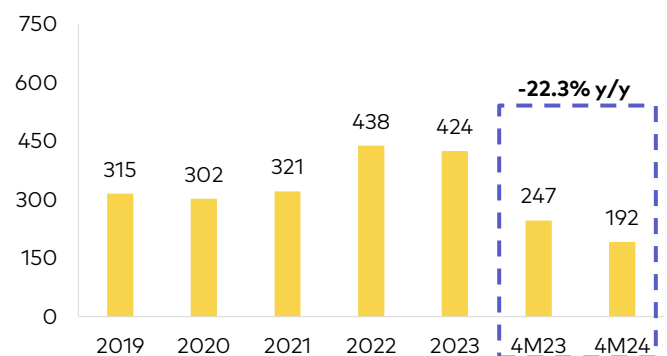
Russian Gazprom announced its annual performance of 2023, showing the loss of US\$ 6.9bn, largest in at least 25 years. According to the analysts, annual figures show how the energy giant failed to adapt to losing the EU market. Instead, Russia tries to deepen its economic ties with China by pushing forward the Power of Siberia 2 project, gas pipeline connecting the two. However, according to Financial Times, the deal stalls due to Beijing's price demands, underscoring how China may be the senior partner in the relationship.

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 22.3% y/y in 4M24 and was mostly driven by the lower import price as the volume decreased only by 7.8% y/y.

Source: Geostat



Precious metals

Gold

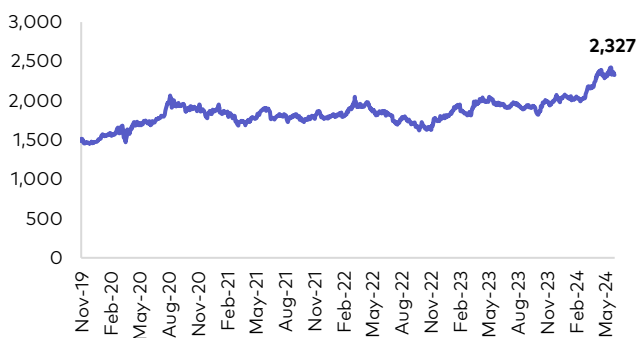
In May 2024, gold price was up 1.8% m/m. Despite a modest growth, bullion continued its record-breaking rally and hit the highest level ever above US\$ 2,400 per troy ounce. Continuous rise assures investors the driver is beyond traditional factors such as hedging risks and inflation. Although they still play an important role, much bigger effect is coming from the central bank buying and retail investors following the momentum.

Demand from global central banks is much larger and has significantly more effect. Since 3Q22 central banks have purchased circa 2,200 tons of bullion worth US\$ 170bn at current prices. Chinese central bank has been the largest customer of the metal, continuing its 18-month streak of buying. Consequently, the share of gold in China's reserves is approaching 5%, compared to 3% in 2022. To put numbers into perspective, additional 1% of gold in reserves would be equal to 9% of global gold supply of 2023.

As for the retail investors, following the surge in prices, Costco made buying gold as simple as a shopping trip to a store. Customers can visit the Costco location and buy a small gold bar along with groceries and other products. According to the estimate by Wells Fargo, shoppers spend circa US\$ 200mn monthly on the precious metal at Costco. However, the demand remains muted as the physical gold is relatively less liquid investment for the retail investor. Costco customers, for example, have to look for individual dealers that will accept the metal and the process may be lengthy.

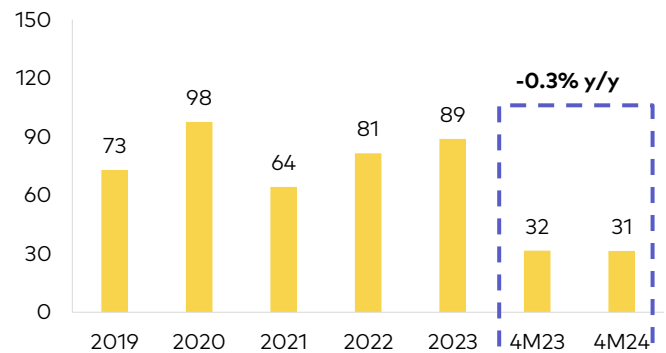
Notably, along with legal trade, gold smuggling is on the rise. According to the recent report by SwissAid, c. US\$ 35bn worth of gold (at current prices) are smuggled out of Africa every year, most of which is headed to United Arab Emirates. More than 435 tons of African gold have been illegally sold on the black market in 2022, circa 40% of the continent's production and 12% of the global mined supply.

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



Source: Bloomberg

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



The gold export volume was down 13.0% y/y in 4M24. Notably, following the global price surge, average export price was up by 14.6% y/y in 4M24.

Source: Geostat



Agriculture

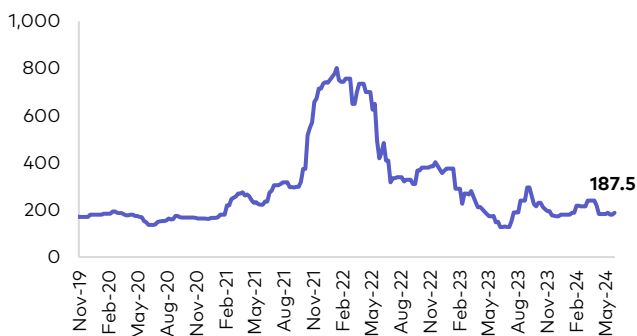
Ammonium nitrate

In May 2024, ammonium nitrate price was up 2.7% m/m. Fertilizer prices were on a downward trend following a surge in prices caused by onset of Russia-Ukraine war, that increased natural gas prices – key component of ammonium nitrate production. However, as discussed earlier, market may witness another significant rise of natural gas price that is likely to impact the prices of nitrate fertilizers as well. Demand side looks promising with Nutrien, one of top fertilizer makers forecasting increased sales due to demand coming from US and Brazil.

Wheat

In May 2024, wheat price was up 15.8% m/m. It marked a largest monthly gain since February 2022, when Russia launched full-scale war in Ukraine. This time around, both key global wheat exporters face severe weather challenges. Russia's production estimates have already been cut by over 10%, while Ukraine is set to harvest lowest volume in a decade. Meanwhile, global wheat inventories are projected to hit a nine-year low due to issues in other major producers too like Australia and India.

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



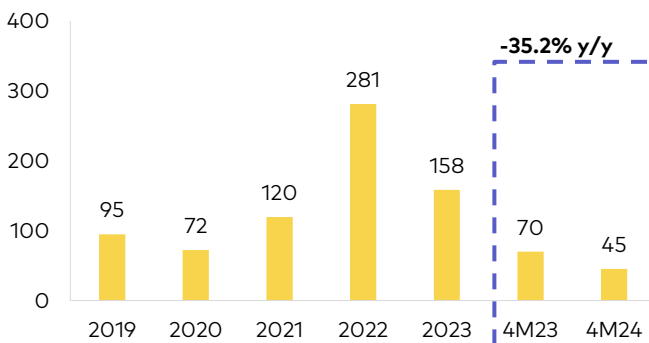
Source: Bloomberg

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



Source: Bloomberg

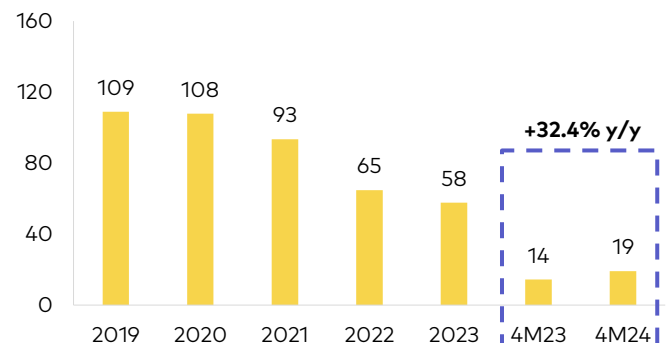
Figure 9: Nitrogenous fertilizers export from Georgia, US\$ mn



The nitrogen fertilizers export value decreased by 35.2% y/y in 4M24. Notably, the decline was driven by significantly reduced average price (-51.6% y/y), as the export volume increased by 33.9% y/y.

Source: Geostat

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



Wheat import value increased by 32.4% y/y in 4M24, while the volume increased by a significant 72.4% y/y, driven by the lower average import price (-23.2% y/y).

Source: Geostat



Metals & ores

Copper ores and concentrates

In May 2024, copper price was up 0.2% m/m. The metal has rallied 30% during the spring and hit an all-time high of above US\$ 11,000 per tonne in late May. Copper has pushed other base metals higher too. Net long positions in base metals on Comex and London Metal Exchange reached 2.6mn tonnes in May, up from only 556k tonnes in March. The rally of the red metal is driven by its significant usage in green energy transition, EV production, military equipment, electronics, and many other industries. With some managers expecting copper to rally up to US\$ 40,000 over the next few years, interest for the red metal reveals itself in some unorthodox ways. For example, theft of copper cable is up 20% in southern England, while telecom companies found other source of income – recovering buried old copper wires and reselling as metal. According to estimates, these wires may be worth at least US\$ 7bn.

Ferrosilicon

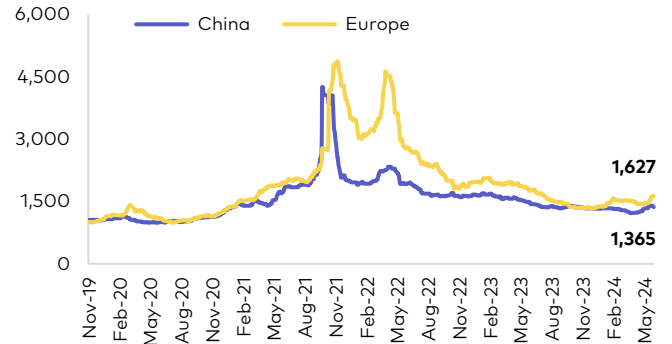
In May 2024, European ferrosilicon price was up 12.9% m/m, while its Chinese counterpart gained 3.8% m/m. Despite the growth, concerns remain about Chinese demand. In China new-home sales dropped 34% y/y in May 2024. Although it is less than 45% decline shown in April, it still shows the challenges in housing sector persists. In addition, global steel production declined by 5% y/y in April, with China, largest steelmaker showing 7.2% drop y/y and EU increasing production by 1.1% y/y.

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



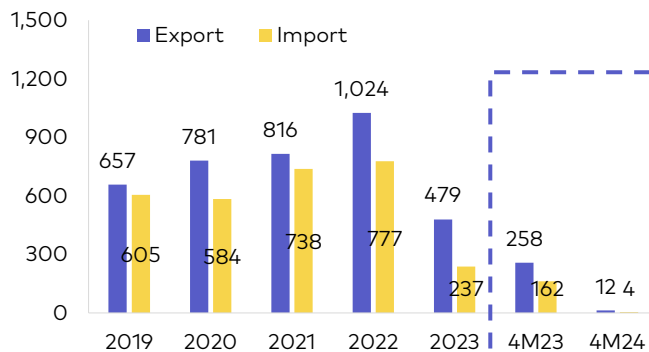
Source: Bloomberg

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



Source: Bloomberg

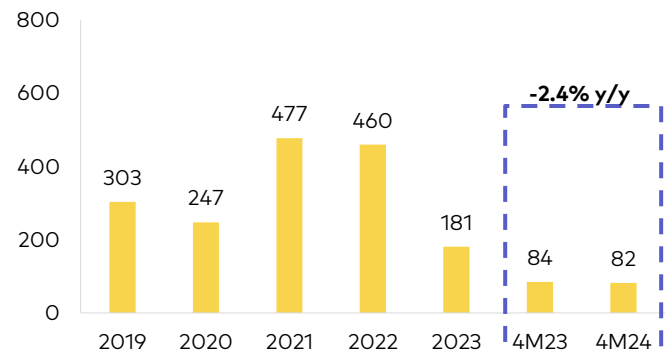
Figure 13: Copper (including ores) external trade of Georgia, US\$ mn



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 4M24.

Source: Geostat

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



The ferroalloy export value decreased by 2.4% y/y in 4M24, while the export volume increased by 14.9%. It might be a hint to recovering export volumes, but still too early to make conclusions.

Source: Geostat



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Head of Research

Eva Bochorishvili | evabochorishvili@gt.ge

Analyst

Dachi Mujirishvili | dmujirishvili@gt.ge

Chief Economist

Lasha Kavtaradze | lashakavtaradze@gt.ge

Analyst

Mariam Okropiridze | maokropiridze@gt.ge

Chief Analytics Officer

Giorgi Iremashvili | giremashvili@gt.ge

Analyst

Otar Tsukhishvili | otsukhishvili@gt.ge

Head of Sector Research

Kakhaber Samkurashvili | ksamkurashvili@gt.ge

Head of Sector

Mariam Chakhvashvili | mchakhvashvili@gt.ge

Address: 3 Pushkin Street, Tbilisi 0105, Georgia

Tel: + (995) 32 2401 111

Email: research@gt.ge

Head of Sector

Tatia Mamrikishvili | tmamrikishvili@gt.ge

Associate

Giorgi Tskitishvili | g.tskitishvili@gt.ge

Senior Analyst

Zurab Tavklishvili | ztavklishvili@gt.ge

Senior Analyst

Sergi Kurashvili | s.kurashvili@gt.ge