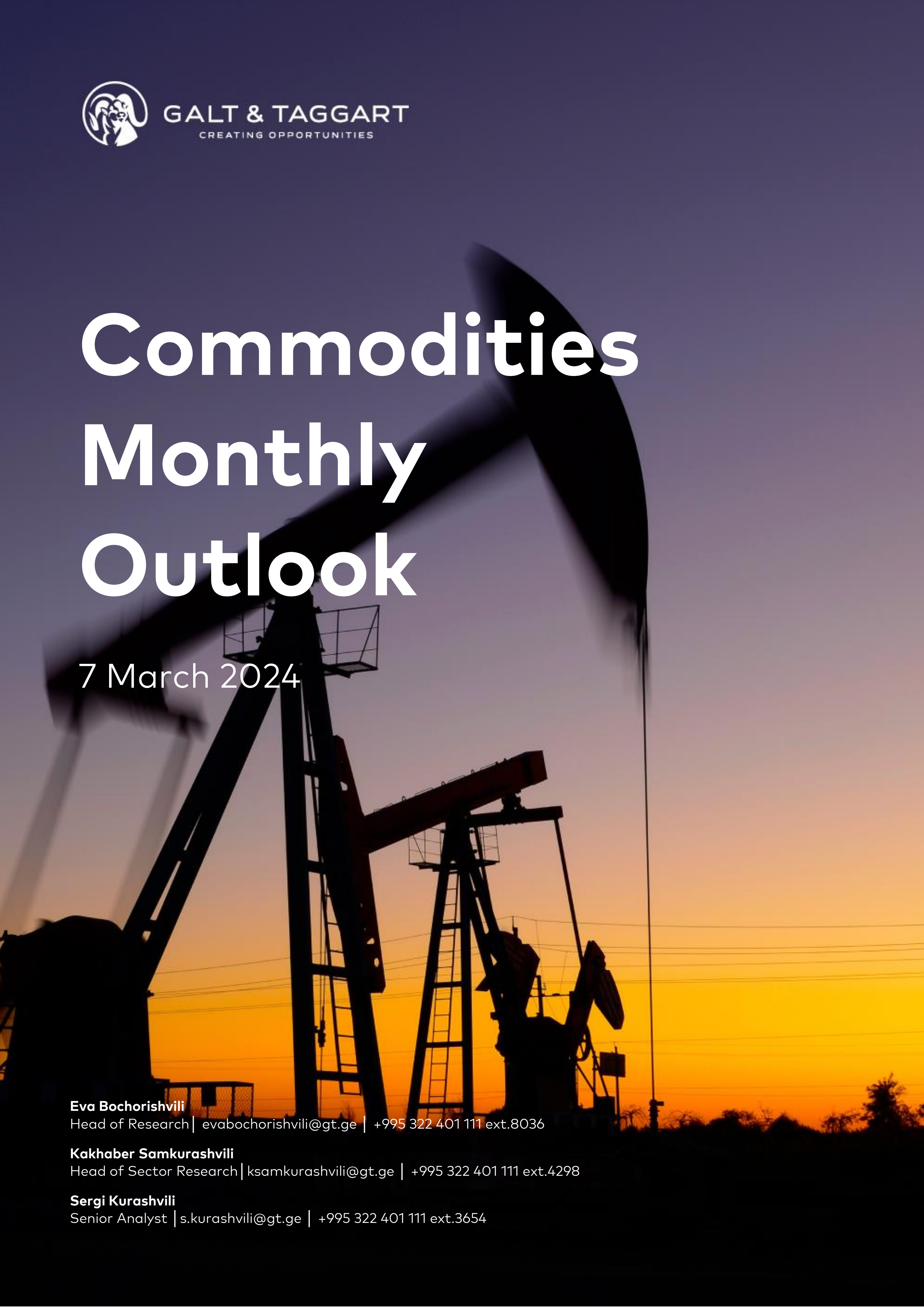

GALT & TAGGART
CREATING OPPORTUNITIES

Commodities Monthly Outlook

7 March 2024

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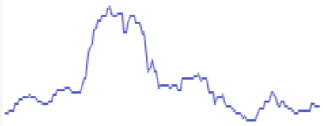
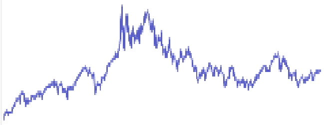
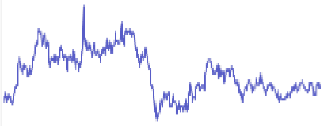
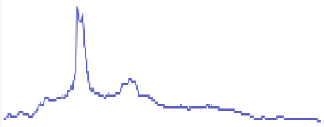
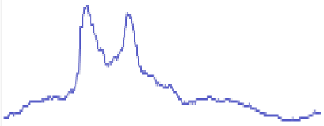
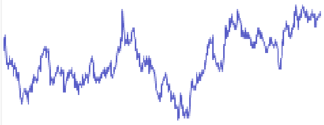
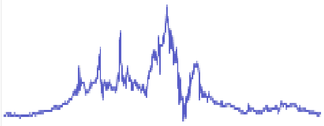
Commodity price dynamics

Commodity	Price	Change, m/m*	Change, YTD	Price change from January 2021 up to date
Ammonium Nitrate US$/ton	**215.0**	**0.0%**	**+19.4%**	
Brent Oil US$/bbl	**83.6**	**+2.3%**	**+8.5%**	
Copper US$/ton	**8,401.5**	**-1.2%**	**-0.7%**	
Ferrosilicon (China) US$/ton	**1,285.0**	**-3.7%**	**-3.7%**	
Ferrosilicon (Europe) US$/ton	**1,512.0**	**-3.9%**	**+9.3%**	
Gold US$/troy oz	**2,044.3**	**+0.2%**	**-0.9%**	
Natural gas US$/mwh	**27.2**	**-16.4%**	**-12.8%**	
Wheat US$/ton	**212.0**	**-9.8%**	**-19.2%**	

Source: Bloomberg
Note: prices as of 29 February, 2024

*m/m prices reflect end of month figures

Energy

Brent oil

In February 2024, brent oil price was up 2.3% m/m. January's disruptions to North American oil production (discussed in our previous monthly review) that slowed crude output by c. 1mn barrels a day tightened the supply side. Tighter inventories helped push prices up in February, but unlike last month, this was not the only driver of the modest gain. Concerns over the wider Middle East conflict, expected demand and supply changes and the upcoming OPEC+ meeting shaped the trading for crude in February.

In the first days of February 2024, global media widely reported potential ceasefire between Israel and Hamas. According to people familiar with the matter, agreement had "a realistic chance of success and could lead to a longer-term ceasefire". On February 7 Israeli Prime Minister Benjamin Netanyahu rejected Hamas' offer for ceasefire that would bring largest hostage release since the beginning of the war. Instead, Israeli forces bombed the city of Rafah, setting the stage for ground offensive, that will mark the fresh escalation of the ongoing conflict. Following the news, brent crude price rose 3.1% to US$ 81.6 on Thursday, February 8.

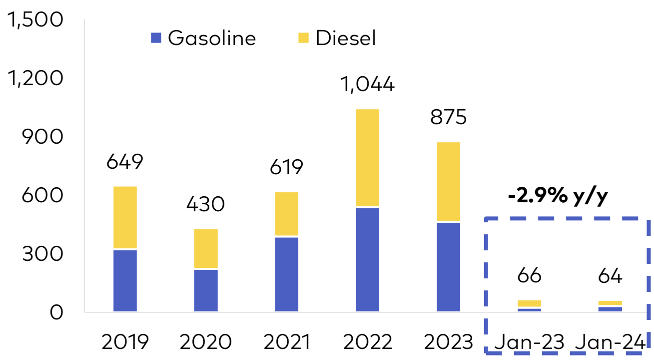
On the supply side, as expected by the analysts, OPEC+ extended its oil supply cuts until the July of 2024, reaching c. 2mn barrels a day. Oil prices have balanced around US$ 80 year to date, which for the OPEC largest producer – Saudi Arabia, seems too low. According to Fitch Ratings, Saudi Arabia needs crude to trade in the range of US$90-100 in order to balance its budget that aims for ambitious projects – economic reforms, futuristic cities, sports tournaments, etc. The outcome of OPEC meeting (extending cuts) was widely anticipated and more-or-less already priced-in, but the members of the group are expected to face more challenging decision in June when they have to set policy for the 2H24.

On the other side of the globe, leader of the non-OPEC production, USA does not favor higher crude prices, especially as the Biden administration faces election year, where inflation pressures could work against their electoral share. As of now, market powers – demand and supply dynamics support lower prices. According to International Energy Agency (IEA), higher global oil supply will satisfy expected demand growth of 1.2mn barrels a day. On the contrary, OPEC expects growth of 2.2 million barrels a day, but it still is not high enough to have significant impact on price growth.

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

Source: Bloomberg

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



The gasoline and diesel import figures remain stable in the first month of the year with imported volume declining by only 1.3% y/y.

Source: Geostat

Energy

Natural gas

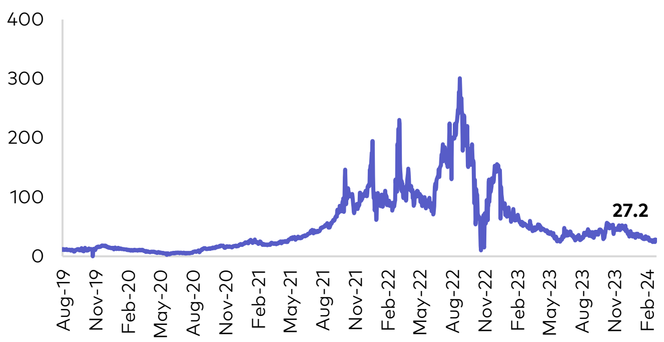
In February 2024, natural gas price was down 16.4% m/m. European gas prices fell to levels last witnessed before the energy crisis, reaching low of US$ 24.5 per mwh in late February. Notably, demand as well as supply factors had adverse impact on prices that are expected to remain relevant in at least a short-to-medium term. According to the median forecast of top investment banks, average price of natural gas in Europe will decline by 9.7% in 2024.

Demand activity remained largely unchanged from our previous review. According to Gas Infrastructure Europe, natural gas inventories stood at 62.5% full on February 29, record level in years (61.1% full on February 28, 2023). As the winter is almost over, EU will soon have to restart filling up the reserves. Therefore, there may be an increased demand from Europe in the next few months, but due to high levels of inventories, not enough to stress the prices. Few analysts though take more cautionary stance and suggest the energy crisis (and the volatility of prices) may be declared over only after the Europe and Asia face simultaneous cold winter and suppliers provide enough commodity for both continents.

On the supply side, Qatar – largest exporter of LNG to Asian countries, bets heavily on future gas demand and expands investments in LNG activity. According to the recent announcement, they plan to increase overall production by almost 85% by the end of the decade from the current capacity of 77mn tons per year. Shell forecasts LNG demand to grow by more than 50% by 2040, driven by China and developing Asia. Russia also wants to hop on the booming LNG trend, looking for loops around Western sanctions. Strategic project Arctic LNG 2 is set to ship its first cargo in the next few weeks, expected to serve needs of large Asian customers. The success or failure of the project will determine the future of Russian investments in LNG infrastructure.

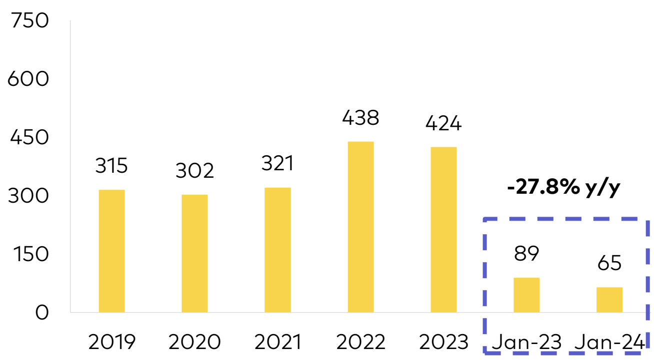
As the demand slows and supply expectations rise, some analysts suggest the market has already accepted no upside potential for natural gas in 2024. According to them, prices need to stay low for a while in order to help solve the oversupply issues.

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 27.8% y/y in Jan-24 and was mostly driven by the lower import price as the volume decreased by 15.3% y/y.

Source: Geostat

Precious metals

Gold

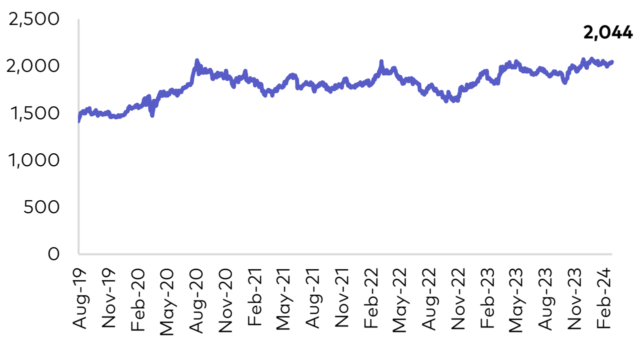
In February 2024, gold price was up 0.2% m/m. In the first half of February gold traded below $2,000 per ounce threshold for the first time this year, driven by global macroeconomic factors. Inflation in USA stood at 3.1%, higher than expected 2.9%, further lowering the chances of cutting rates anytime soon. On the contrary, retail sales data in US showed slowing figures, hinting at potentially weakening dollar that helped gold to rebound above $2,000.

Ongoing wars and upcoming elections in most of the world are expected to support the gold price as investors are hedging geopolitical risks. Furthermore, central banks have increased their gold reserves by over 1,000 metric tons in 2023, led by China (225 metric tons net purchases) and Poland (130 metric tons). They both were consistent buyers over the last year and the trend is expected to continue as central banks globally (especially in the emerging market) try to diversify their reserves.

One of the earlier drivers in 2023 of gold prices was the US regional banking crisis, when three small and mid-size banks failed, triggering sharp decline in global bank stocks and rise in gold demand. The return of fears about the banking sector pushed gold price to the new heights in the first few days of March 2024. New York Community Bancorp (NYCB) reported "material weaknesses" in its internal controls related to monitoring and assessing risks in its loan books. Fitch Ratings and Moody's downgraded the bank's credit rating to below investment grade. Another US regional bank, Republic First Bancorp also said the auditor identified "material weaknesses" in its internal controls. Although the two banks are much smaller than the ones failed back in 2023, regulators and analysts still worry they might spark another crisis of confidence in regional banks.

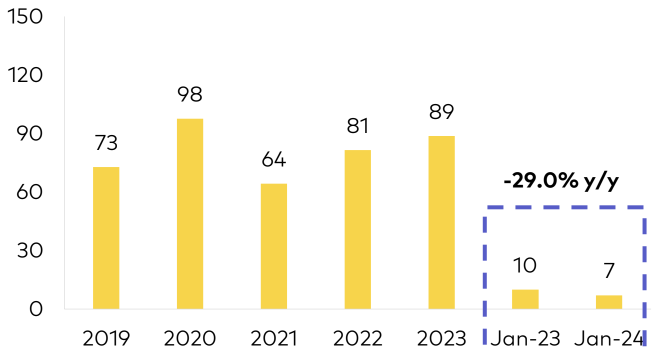
The fate of another potential banking weakness and its effects on gold prices will unfold more in March and will be covered in our next outlook. Until then, median forecast for the precious metal sets gold price to average 5.1% higher in 2024 compared to 2023 figure.

Figure 5: Gold price, US$/troy ounce



Source: Bloomberg

Figure 6: Gold export from Georgia, US$ mn



The gold export value and volume (-40% y/y) decreased significantly in Jan-24. As the recent years showed almost constant volume, only one-month figure does not imply significant changes for the rest of 2024.

Source: Geostat

Agriculture

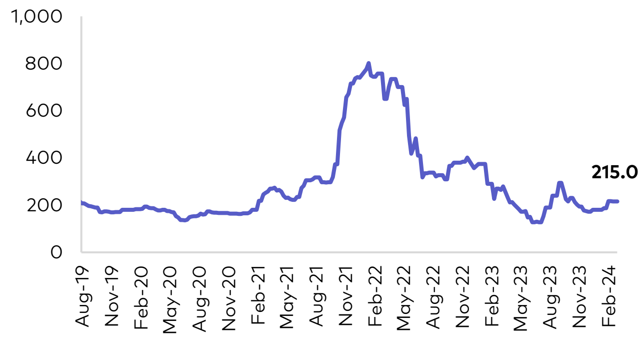
Ammonium nitrate

In February 2024, ammonium nitrate price stayed constant at US$ 215 per ton. The vessel transporting 18,000 tons of ammonium phosphate sulfate from Saudi Arabia to Bulgaria sank in the Red Sea after two Houthi missiles hit the ship on February 18. Apart from the environmental damage, incident sparked concerns about potential supply-chain disruptions. However, demand-side is also unusually weak ahead of the spring season as the farmers continue protests across Europe against high taxes, strict regulations and unfair competition. While the rallies are still active in Brussels, Madrid, Warsaw and more, outlook for future fertilizer demand remains uncertain.

Wheat

In February 2024, wheat price was down 9.8% m/m. The prices have declined due to rising production in large suppliers such as Brazil, Russia and the US. The current trend follows the sharp rise of agricultural product prices in 2022 after Russia broke out the war in Ukraine – one of the world's largest exporters. The war pushed prices to record highs, incentivizing farmers to increase crop acreage. New crops coupled with Ukraine's resumed shipments quickly reduced the prices in 2023 and 2024. In a cyclical manner, farmers are now decreasing their acreage due to low prices. Therefore, potential less production may reverse the trend in the future, but the current market conditions hint at sustainable low prices in the near term.

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

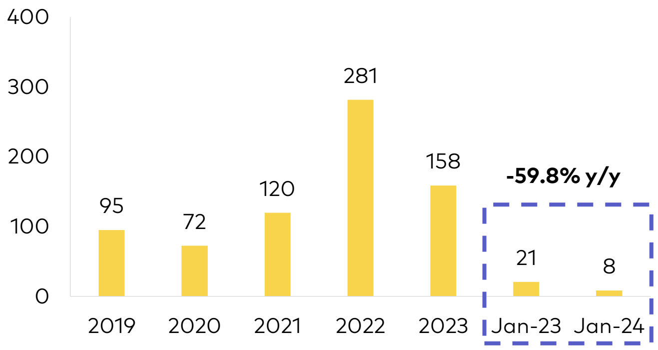


Source: Bloomberg

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

Source: Bloomberg

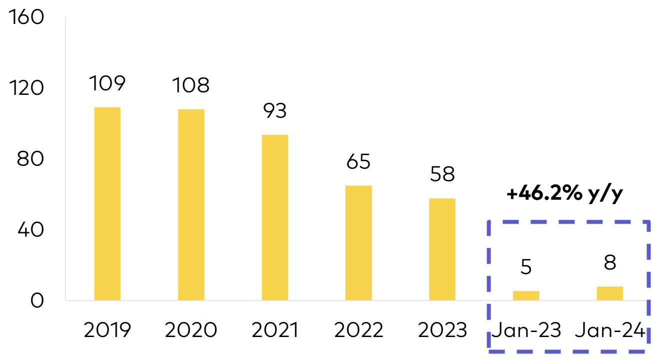
Figure 9: Nitrogenous fertilizers export from Georgia, US$ mn



The nitrogen fertilizers export value decreased by 59.8% y/y in Jan-24, mostly due to gradual decline of prices as the volume shrunk by only 16.5% y/y.

Source: Geostat

Figure 10: Wheat import to Georgia, US$ mn



Wheat import value increased by 46.2% y/y in Jan-24, while the volume increased by significant 86.9% y/y, driven by the lower average import price (-21.8% y/y).

Source: Geostat

Metals & ores

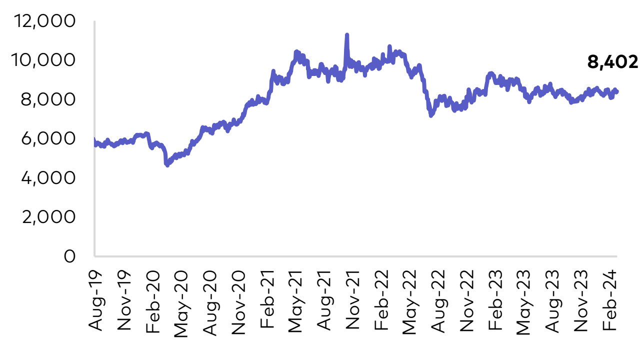
Copper ores and concentrates

In February 2024, copper price was down 1.2% m/m. Tight copper concentrate market supports the refined copper price. Hernan Videla, smelter in Chile temporarily stopped its operations on February 23 after mining companies had to halt concentrate deliveries. Shipment difficulties in the Red Sea (Houthi attacks) and the Panama Canal (drought) lowered the London Metals Exchange's (LME) copper inventories to its lowest level in the last six months. On the contrary, Chinese stocks are swelling, but are expected to start dropping from March as the local demand gradually normalizes. The central bank rate cuts being postponed affects the copper price adversely. A fall in interest rates would lower the cost of borrowing and encourage economic growth, hence the higher copper demand. Despite this, S&P Global anticipates 292,000 metric ton deficit on the market in 2024, supporting the upward price trend.

Ferrosilicon

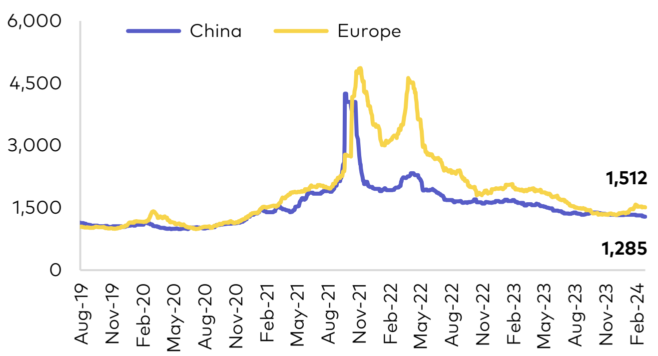
In February 2024, European ferrosilicon price was down 3.9% m/m and its Chinese counterpart dropped by 3.7% m/m. Despite the monthly decline in European prices, it remains 9.3% higher than the beginning of the year. Forecast of the future price movements seem uncertain as the challenges in iron ore and steel industries persist. Expected global easing of monetary policies later in the year will likely increase demand from real estate and industrial sectors and provide sufficient boost for the prices.

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



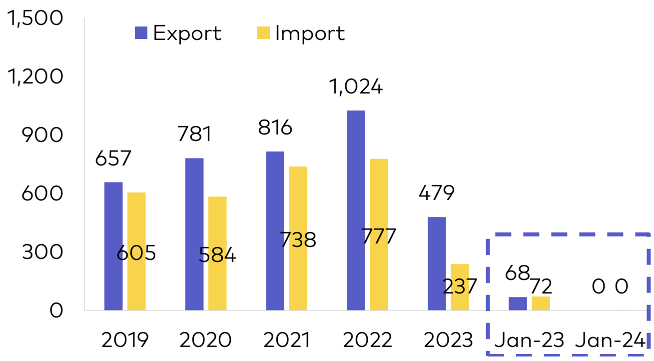
Source: Bloomberg

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



Source: Bloomberg

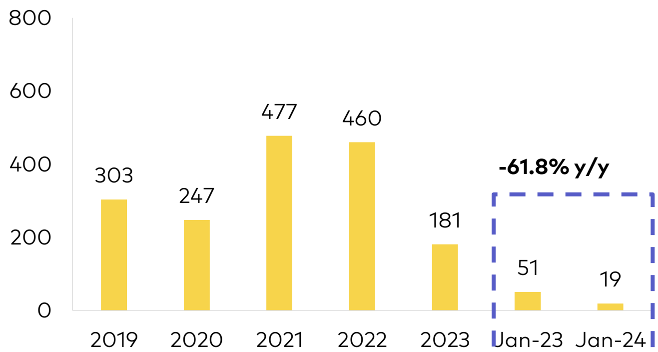
Figure 13: Copper (including ores) external trade of Georgia, US$ mn



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 zeroed in Jan-24.

Source: Geostat

Figure 14: Ferroalloy export from Georgia, US$ mn



The ferroalloy export value decreased by 61.8% y/y in Jan-24, which can be explained by a sharp decline in prices, prompting producers to cut production – exported volume decreased by 51.8% y/y.

Source: Geostat

Disclaimer

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