GALT & TAGGART
CREATING OPPORTUNITIES

Commodities Monthly Outlook

10 April 2024

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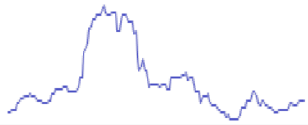
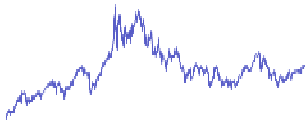
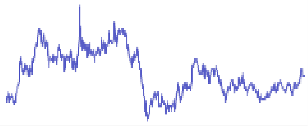
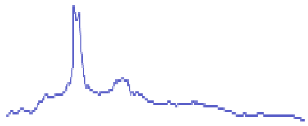
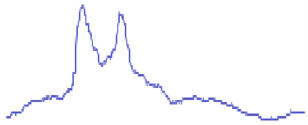
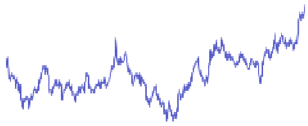
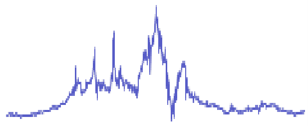
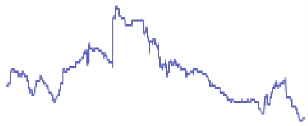
Commodity price dynamics

Commodity	Price	Change, m/m*	Change, YTD	Price change from January 2021 up to date
Ammonium Nitrate US$/ton	**240.0**	**+11.6%**	**+33.3%**	
Brent Oil US$/bbl	**87.5**	**+4.6%**	**+13.6%**	
Copper US$/ton	**8,766.5**	**+4.3%**	**+3.6%**	
Ferrosilicon (China) US$/ton	**1,225.0**	**-4.7%**	**-8.2%**	
Ferrosilicon (Europe) US$/ton	**1,510.5**	**-0.1%**	**+9.2%**	
Gold US$/troy oz	**2,229.9**	**+9.1%**	**+8.1%**	
Natural gas US$/mwh	**31.2**	**+14.7%**	**+0.1%**	
Wheat US$/ton	**195.0**	**-8.0%**	**-25.6%**	

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

*m/m prices reflect end of month figures

Energy

Brent oil

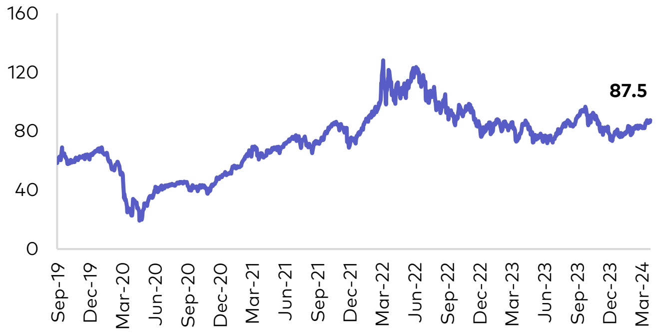
In March 2024, brent oil price was up 4.6% m/m (+13.6% in 1Q24) and the potential of $100 barrel of oil is back, with JP Morgan suggesting a scenario that could lead to triple digits by September. However, there are a few factors that can hinder the growth, such as OPEC+ decisions, US production and its Strategic Petroleum Reserve dynamics.

OPEC+ took center stage in the beginning of the month as it extended its oil supply cutbacks (amounting to 2 million barrels per day) until the end of June, but the outcome of the meeting was widely anticipated among traders. On the contrary, outcome of the June's meeting remains uncertain as of now and is expected to have more significant effect on the prices. Further extension of production cuts may send market into deficit for the rest of the year, according to International Energy Agency, pushing prices up. Higher prices are much needed for Saudi Arabia, but works against Biden Administration, which may once again release crude from Strategic Petroleum Reserve, in order to tame domestic petroleum prices ahead of November elections. Furthermore, The US oil sector is on track to achieve record production levels, with projections indicating an output of around 14 million barrels per day by the year's end. Falling costs and enhanced drilling efficiency propelled US shale output, reflecting a significant shift in global production dynamics. In addition, sanctions targeting Russian oil exports disrupted traditional trade flows, leading to constraints on Moscow's revenues. Indian refiners, in particular, ceased accepting tankers owned by state-run Sovcomflot PJSC due to sanctions risk, impacting Russian crude deliveries to one of the largest crude importers. Consequently, US oil exports surged, setting records since the imposition of sanctions on Russia in 2022, as American barrels displaced sanctioned crude in key markets, including India.

Another key driver of the brent price was Ukraine's drone strikes on Russian refineries. Ukrainian troops have launched assaults on over a dozen refineries located within Russian territory, resulting in significant reductions in fuel production and accounting for 2.7% rise in Brent prices. However, US urged Kiev to halt attacks on refineries, worrying about the potential escalation of domestic fuel costs during an election year. In response, Zelenskiy called for the Congressional authorization of over $60 billion in military aid, which has been delayed for an extended period. Without this assistance, he warned, Ukraine would be forced to intensify its attacks on Russian military targets and vital infrastructure.

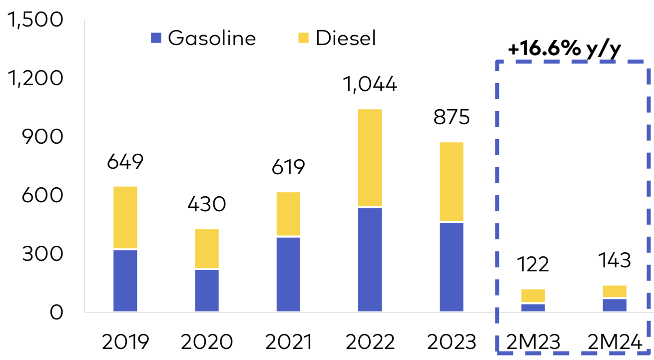
April is set to be a hot trading-month for brent, as the situation in the Middle East escalates with deadly attacks on Iranian Embassy in Damascus, blamed to Israel by Iran, vowing to take revenge.

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 increased by 11.7% y/y in 2M24 and reached 185 tons. Average import price remained stable with a moderate growth of 4.4% y/y.

Source: Geostat

Energy

Natural gas

In March 2024, natural gas price was up 14.7% m/m (+0.1% in 1Q24). Despite the monthly gain, natural gas remained at the same level as the beginning of the year, effectively stabilizing at the pre-energy crisis prices.

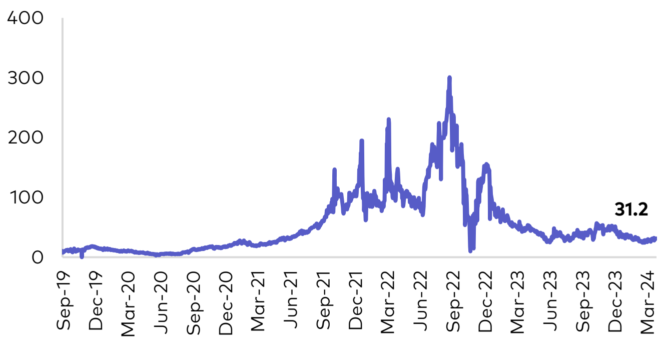
Lower prices prompted developing nations in Asia to increase liquified natural gas (LNG) purchases, reaching 24 million tons in March, up 12% y/y. The growth was driven by China, India and Thailand. The shipments are expected to continue to Asia as the inventories in Europe remain at seasonal peak. Notably, largest LNG supplier of Asia – Qatar plans to almost double its production capacity by 2030, as discussed in our previous review. In March, Qatar moved on to secure deals with Asian ship operators, adding 19 LNG carriers to its fleet, underscoring country's ambition to remain dominant in natural gas market.

On the demand side, natural gas seems to be acquiring new consumer industry – AI. Natural gas faced the growing demand for electricity to support data centers and power the artificial intelligence (AI) revolution. Executives highlighted the crucial role of natural gas in meeting the energy needs of AI technologies, emphasizing its reliability compared to renewable energy sources. The rapid expansion of data centers, cloud storage facilities, crypto mining, and AI applications is expected to drive a surge in natural gas consumption, despite global efforts to transition to cleaner energy sources. To put demand growth into perspective, Microsoft alone, for example, is opening a new data center globally every three days.

However, this optimism in the natural gas industry is met with caution by analysts and environmental advocates, who warn of the risks posed by expanding gas infrastructure to global efforts to mitigate climate change. The clash between increasing demand for natural gas and the transition to renewable energy sources introduces complexity to the market landscape, raising uncertainties over future demand forecasts.

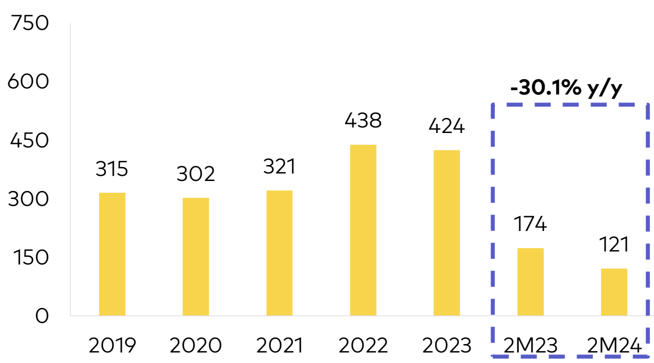
On the one hand, Google and Microsoft have set ambitious goals to use only green electricity to cover their energy use. On the other hand, according to Energy Capital Partners (ECP) "gas is the only cost-efficient energy generation capable of providing the type of 24/7 reliable power required by the big technology companies to power the AI boom". Therefore, the extent to which natural gas will be used in the AI boom remains uncertain. Meanwhile, per International Energy Agency (IEA) estimates, data center power demand will reach 1,000 TWh globally by 2026, double the 2022 figure and equivalent of Germany's total power demand.

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 30.1% y/y in 2M24 and was mostly driven by the lower import price as the volume decreased by 17.9% y/y.

Source: Geostat

Precious metals

Gold

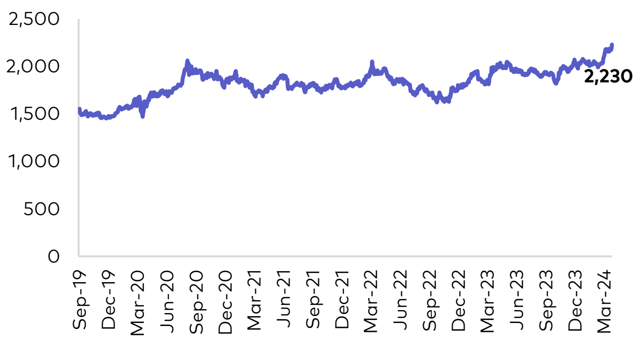
In March 2024, gold price was up 9.1% m/m (+8.1% in 1Q24). During the past quarter, precious metal reached new record highs several times, mainly driven by the same factors – increased demand from 1) Chinese investors 2) central banks, and 3) hedging geopolitical risks.

Heightened demand from China was one of the key drivers of gold's recent rally, starting from 2023. Demand growth is expected to continue, supported by few of the data points from China. Specifically, consumer gold imports have reached 367 tons in 2M24, up by 51% y/y. Furthermore, purchases of gold jewelry increased by 24% y/y during the Lunar New Year. As for the central banks, their effect can be separated in two parts. Firstly, central banks are actively diversifying their reserves using gold. The share of gold in global reserves reached 14.4% in 2023, compared to 8.2% in 2015. Secondly, expected rate cuts from major economies during the year will have positive effect on the gold's price. All these are thoroughly discussed in our recent reviews (see here and here).

Apart from the demand drivers discussed above, a hot topic for the industry is outflows from gold ETFs. Some analysts suggest that the outflows from gold ETFs were due to bitcoin ETF approval, suggesting that investors moved money from physical gold to "digital gold" (bitcoin). This is supported by the data showing gold ETFs losing US$ 7.7bn after bitcoin ETF approvals to date. On the contrary, JP Morgan said the outflows started much earlier – in April 2022 – and have continued steadily, unaffected by the emergence of US spot bitcoin ETFs. Despite the narrative of a potential shift from gold to bitcoin, analysts at JP Morgan remain skeptical. The net demand for gold continues to rise, driven by central banks and retail buyers in emerging markets like China and India. While some investors view bitcoin as "digital gold," the impact of spot bitcoin ETFs on gold ETFs remains limited.

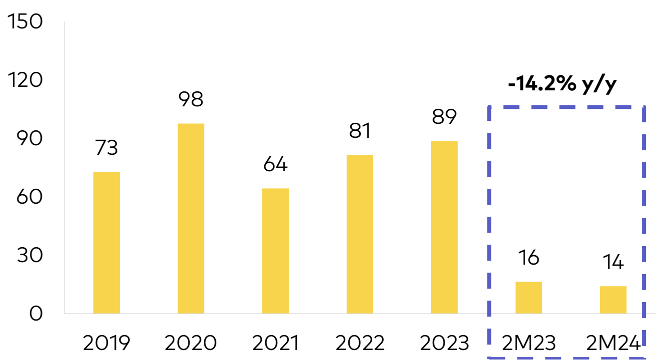
Instead of abandoning gold, private investors and central banks have been increasing their investments in physical gold bars and coins. Data by World Gold Council (WGC) indicates that private investors poured US$ 229bn into gold bars and coins between September 2020 and December 2023, while central banks acquired an additional US$ 155bn worth of gold. This shift reflects a preference for the tangibility and privacy offered by physical gold assets, that ETFs cannot offer as the holdings are officially registered and lack anonymity.

Figure 5: Gold price, US$/troy ounce



Source: Bloomberg

Figure 6: Gold export from Georgia, US$ mn



The gold export volume was down 26.7% y/y in 2M24. Notably, following the global price surge, average export price was up by 17.0% y/y in 2M24.

Source: Geostat

Agriculture

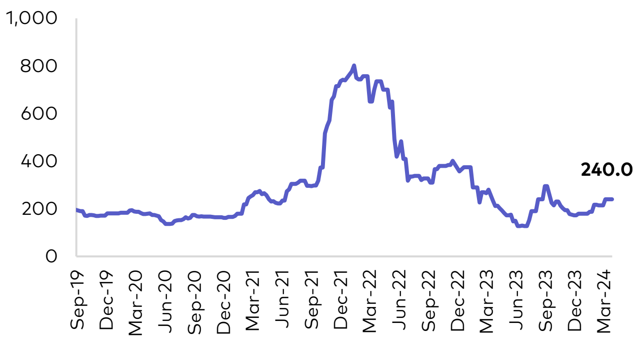
Ammonium nitrate

In March 2024, ammonium nitrate price was up 11.6% m/m (+33.3% in 1Q24). Despite the growth, ammonium nitrate has several challenges to deal with in the short and medium term. These include updating industrial policies to meet environmental concerns, dealing with fluctuating raw material costs due to geopolitical tensions, and expected slow economic growth. However, potential improvements in major economies and easing of supply chain issues (including the Red Sea) may support the larger rebound in demand for the latter half of 2024.

Wheat

In March 2024, wheat price was down 8.0% m/m (-25.6% in 1Q24). Protests of farmers in EU was the hot topic for the industry (wheat and grain in general) during the recent quarter. European farmers demand to halt special trade measures given to Ukraine that gives country unrestricted access to the EU market. Current system is set to expire on June 5, further measures will likely be known in upcoming weeks. Meanwhile, Ukraine's wheat exports increased 17x to EU in 2022-23 from pre-war levels. Ukraine's agriculture minister, Mykola Solskyi says Ukraine is not the main factor lowering the global prices, rather it is larger harvests in other producer countries. According to him, Ukraine is set to produce 5-10% y/y less wheat this year as the harvested land shrunk.

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

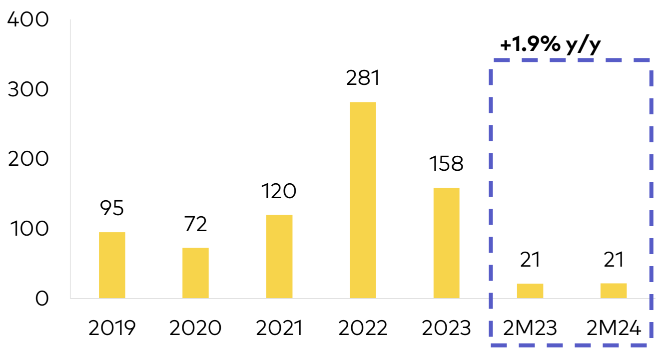


Source: Bloomberg

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

Source: Bloomberg

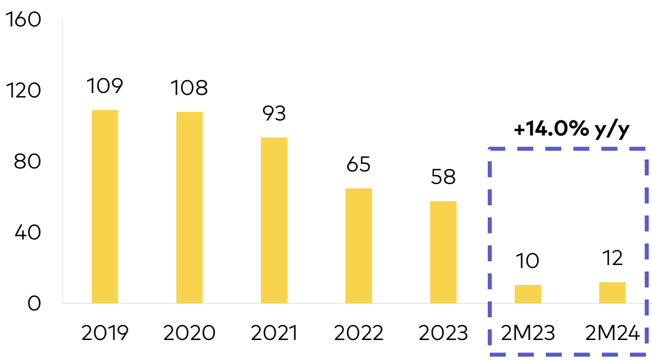
Figure 9: Nitrogenous fertilizers export from Georgia, US$ mn



The nitrogen fertilizers export value increased by 1.9% y/y in 2M24. Notably, the growth was driven by significantly more export volume (+116.2% y/y), as the average price declined by 52.9% y/y.

Source: Geostat

Figure 10: Wheat import to Georgia, US$ mn



Wheat import value increased by 14.0% y/y in 2M24, while the volume increased by significant 44.1% y/y, driven by the lower average import price (-20.9% y/y).

Source: Geostat

Metals & ores

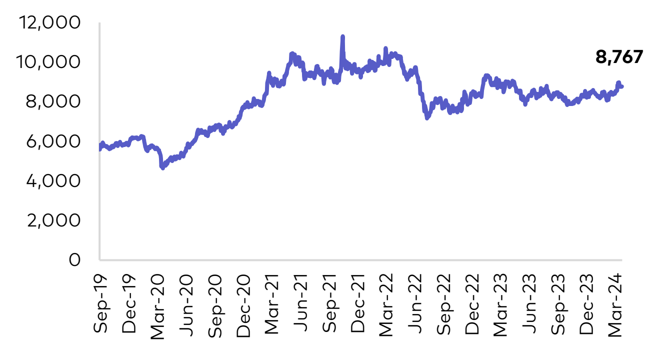
Copper ores and concentrates

In March 2024, copper price was up 4.3% m/m (+3.6% in 1Q24). Traders are anticipating a tighter copper market in the near future despite concerns about China's economic growth. Disappointment over China's stimulus measures has led to downgraded demand expectations for copper, yet lower interest rates and production cuts by miners are expected to tip the market into deficit. Copper smelters are considering output cuts due to raw material shortages, which could tighten supply and raise prices. While the spot market is not yet experiencing supply tightness, analysts predict that production cuts and increasing demand (due to increased industrial activity following the rate cuts) will soon lead to shortages, potentially driving prices higher, with some forecasting copper prices to reach $10,000-$10,200 per ton by the end-2024.

Ferrosilicon

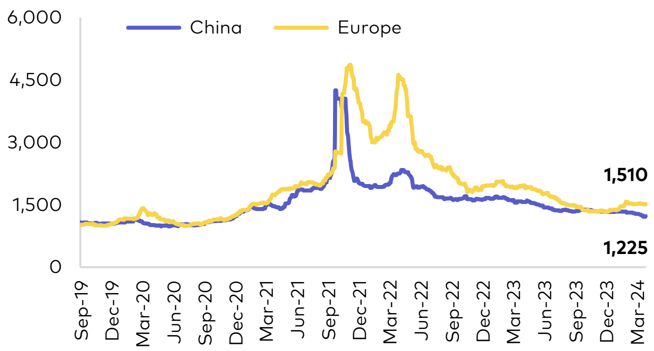
In March 2024, European ferrosilicon was down 0.1% m/m (+9.2% in 1Q24), while its Chinese counterpart lost 4.7% m/m (-8.2% in 1Q24). European gain in the recent quarter is attributed to logistics issues as the Red Sea crisis decreased supply from India. Meanwhile, further loss on Chinese market is due to property downturn and relatively weak infrastructure demand. Iron ore prices in Asia dropped to 10-month low as the outlook remains gloomy.

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



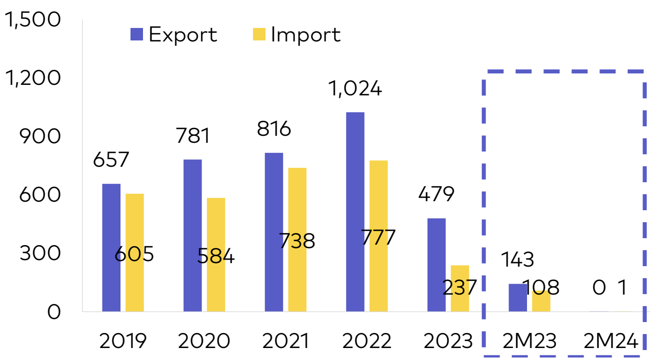
Source: Bloomberg

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



Source: Bloomberg

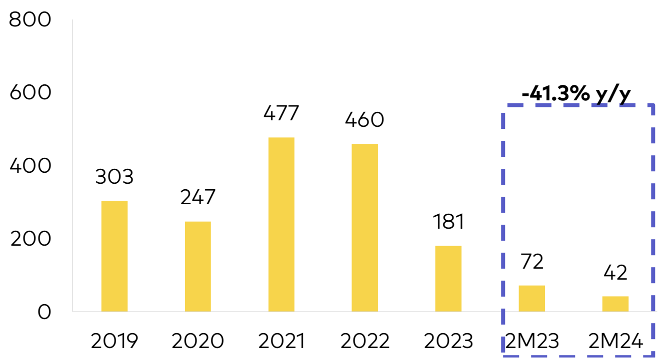
Figure 13: Copper (including ores) external trade of Georgia, US$ mn



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 practically zeroed in 2M24.

Source: Geostat

Figure 14: Ferroalloy export from Georgia, US$ mn



The ferroalloy export value decreased by 41.3% y/y in 2M24, which can be explained by a decline in prices, prompting producers to cut production – exported volume decreased by 26.3% y/y.

Source: Geostat

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