



GALT & TAGGART
CREATING OPPORTUNITIES

Commodities Monthly Outlook

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Commodity price dynamics

Commodity	Price	Change, m/m*	Change, y/y	Price change from January 2021 up to date
Ammonium Nitrate US\$/ton	187.5	+4.2%	-35.3%	
Brent Oil US\$/bbl	81.7	+6.1%	-3.3%	
Copper US\$/ton	8,500.5	+0.4%	-7.6%	
Ferrosilicon (China) US\$/ton	1,335.0	0.0%	-19.8%	
Ferrosilicon (Europe) US\$/ton	1,573.3	+13.8%	-23.8%	
Gold US\$/troy oz	2,039.5	-1.1%	+5.8%	
Natural gas US\$/mwh	32.6	+1.2%	-51.3%	
Wheat US\$/ton	235.0	-10.4%	-19.2%	

Source: Bloomberg

*m/m prices reflect end of month figures



Energy

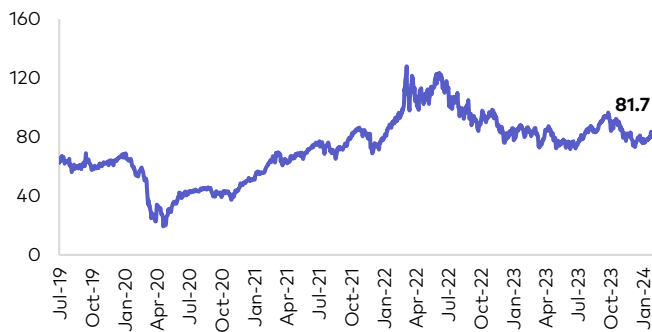
Brent oil

In January 2024, Brent oil price was up 6.1% m/m. It was a first monthly gain for crude since September 2023. Intuitively, Hamas's attack on Israel on October 7th and related escalations in the following months should have inflated the prices. Houthis and Iran-backed military groups keep striking the vessels in the Red Sea, hitting the U.S. military base in Jordan at the end of last month, leaving a few deceased and many more injured. Despite the turmoil, Brent price has slid 3.4% since Israel-Hamas war started. According to J.P. Morgan, there is now no geopolitical risk premium in oil prices due to supply's capacity to absorb the current shocks.

No major oil supply disruption has occurred in the recent months and future impacts remain unlikely too, limiting the investor's worries over the Red Sea shipping. The disturbances this far have reduced Red Sea oil flow by 20% and mostly are easily handled. Moreover, according to J.P. Morgan, longer route around Africa adds only \$2 per barrel to oil prices as the Arab states predominantly use pipelines for shipping. In addition, expanding oil production from non-OPEC countries and idle capacity of OPEC+ countries following the production cuts, are set to cover any unforeseen demand growth or supply disruption.

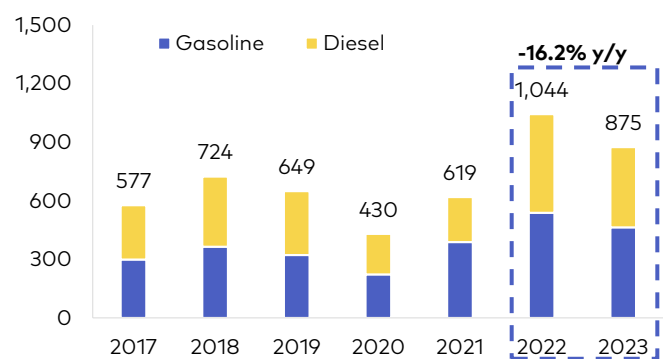
Therefore, Middle East crisis was not a driving force behind January's growth, rather it was a sudden winter storm and U.S. economic growth. Deep freezes in North Dakota and Texas slowed crude output by circa 1 million barrels a day. Additionally, U.S. economy data adjusted for inflation showed a real growth of 3.3% in 4Q23, higher than analysts' forecast of 2%, boosting investors' expectations for future demand.

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 value decreased by 16.2% y/y in 2023 driven by the uptake of relatively cheaper import markets.

Source: Geostat



Energy

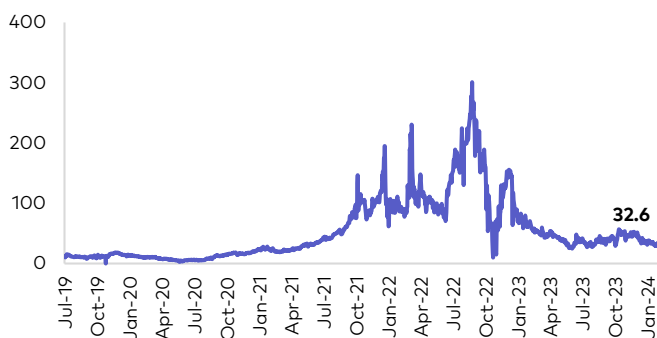
Natural gas

In January 2024, natural gas price was up 1.2% m/m. Modest gain was a result of positive and negative factors outweighing each other – most importantly, mild weather and sizeable inventories across Europe and temporary halt on reviewing new LNG export applications by the United States. Middle East effect, similar to crude, was limited on natural gas prices, mostly due to same reasons – enough supply and inventories to cover any unforeseen demand growth or supply disruption.

During most of January natural gas prices gradually declined from its monthly high of \$38.3 per mwh to a low of \$29.3. The decline came from constant reports of significantly large storage levels in Europe and Asia – 78% in Europe and close to the highest figure of five years in South Korea and Japan. Coupled with higher-than-expected temperatures, meeting demand did not seem troublesome. In addition, Qatari, a major LNG exporter, is a trustworthy supplier of the commodity to Asian countries, while delivering it to Europe may have more logistics issues. On the contrary, U.S. supplies the Europe with LNG, tripling own export capacity since 2018. However, Biden administration temporarily halting the review of new export applications triggered some corrections on the market.

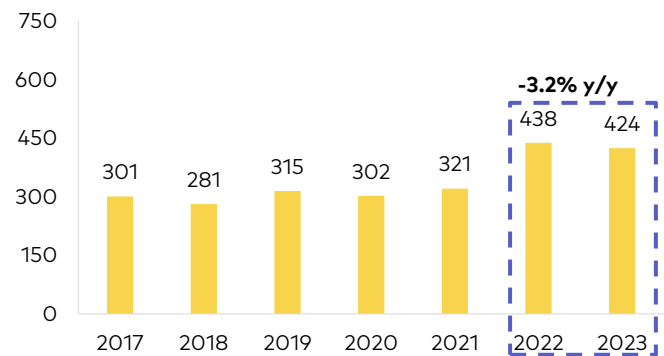
According to analysts, election year pushes Biden to find the balance between climate activists with their millions of voter followers on TikTok and the national energy industry followed by the strategic partners and importers in Europe. According to the White House, paused licensing will not affect any export applications already approved and therefore the current supply of LNG to Europe. According to Shell CEO, the decision may not impact short- or medium-term supply, but erodes confidence in LNG in the long term. The price of natural gas in Europe increased circa 12.6% since the White House announcement on January 26th.

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 3.2% y/y in 2023, while the volume stayed almost constant (-0.8% y/y) at 3.1mn cubic meters.

Source: Geostat



Precious metals

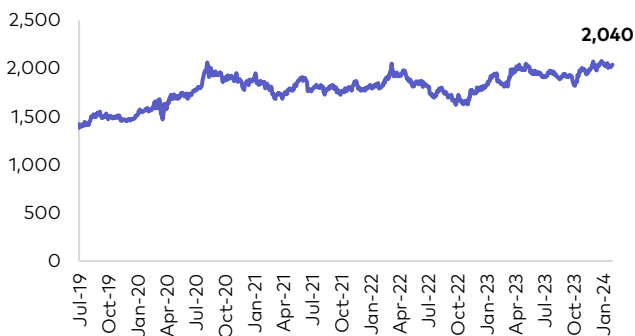
Gold

In January 2024, gold price was down 1.1% m/m. Despite the modest decline, bullion held up above \$2,000 per ounce psychological level so far this year, following the record-setting 2023. According to UBS analysts, the demand coming from Chinese retail investors was under-appreciated as last year's growth factor. Chinese investors and households turned to gold as a safe haven from the turbulent domestic real estate and stock markets, contributing to the sustained high prices of the precious metal. According to analysts at the World Gold Council (WGC), "China is not the price-setting factor but it is providing a floor".

Another major consumer of bullion, central banks have apparently slightly slowed the purchases – 229mt in 4Q23, down from 382mt in 4Q22. Annual purchases have declined by circa 4% to 1,037mt in 2023. Despite a mere decline, it may have a larger impact on investors' minds as central banks' purchases used to support gold prices over the past two years.

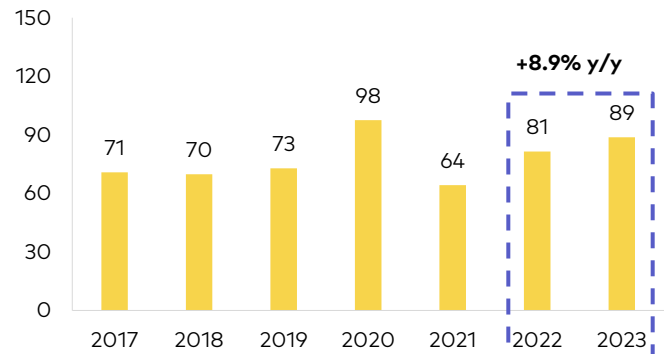
Additionally, the FED chairman Jerome Powell announced no rate cuts and strongly pushed back against any cut expectations for the next meeting in March, aiding the money markets rather than bullion. Despite the negative impact of central banks so far, Wall Street is largely bullish on the precious metal for 2024, betting on low inflation (hence rate cuts) and more buying from central banks.

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



Source: Bloomberg

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



The gold export value increased by 8.9% y/y in 2023, driven by higher prices, as the volume of exports increased by only 1.5% y/y to 2.7 tons.

Source: Geostat



Agriculture

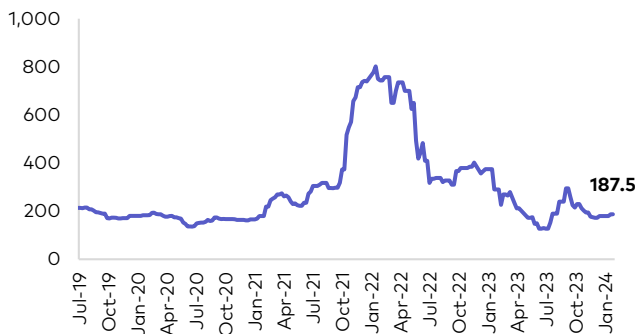
Ammonium nitrate

In January 2024, ammonium nitrate price was up 4.2% m/m. Although this gain, its price remains 35.3% lower y/y. Decline came from falling natural gas prices – key component of ammonium nitrate production. As described in our previous reviews, price is more-or-less balanced with different factors offsetting each other. On the one hand, China still focuses on own inventory increase, limiting the potential supply. On the other hand, India is set to cut its fertilizer subsidy starting from April 1 as the global prices weaken. Stock prices of Indian fertilizer manufacturers declined due to worries that a decrease in subsidies might lead to a drop in the usage of agricultural nutrients.

Wheat

In January 2024, wheat price was down 10.4% m/m. After the strong gains due to risk premiums, Black Sea bottlenecks and fears of a global recession are easing, sending the wheat prices lower. In addition, wheat production is set to reach a new height of 114mn tonnes in India, partially offsetting shortages in some of its regions. On the other hand, parts of Australia have been hit by an unusually long rain season, damaging crops from sugar to wheat. On a broader scale, analysts expect El Nino to have an adverse impact on global supply of agricultural products in 2024, providing a floor for the prices.

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



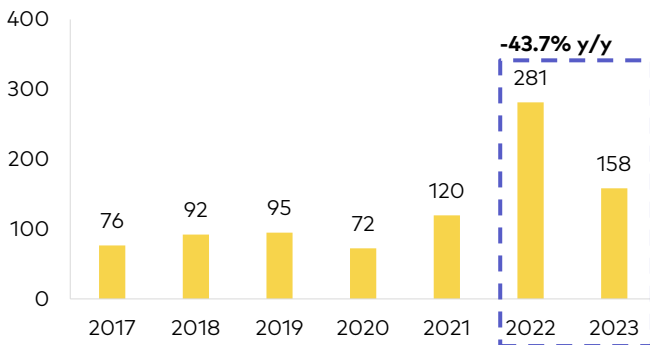
Source: Bloomberg

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



Source: Bloomberg

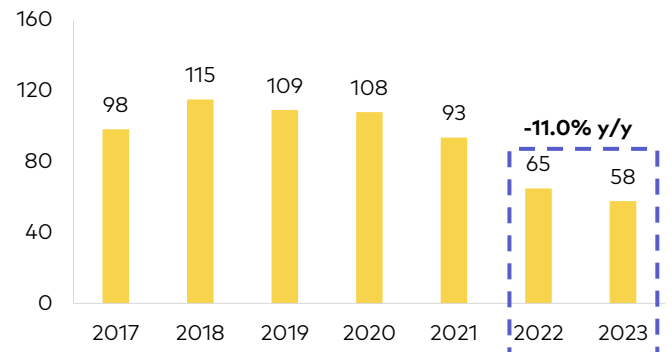
Figure 9: Nitrogenous fertilizers export from Georgia, US\$ mn



The nitrogen fertilizers export value decreased by 43.7% y/y in 2023, due to gradual decline of prices as the volume shrunk by only 2.6% over the year.

Source: Geostat

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



Wheat import value decreased by 11.0% y/y in 2023, while the volume increased by 20.7% over the year, driven by the lower average import price.

Source: Geostat



Metals & ores

Copper ores and concentrates

In January 2024, copper price was up 0.4% m/m. Despite the negligible gain, hedge funds are betting bullish on copper stocks, forecasting a significant deficit on the market in 2024. Any remaining anticipation of excess supply has disappeared completely and has been replaced by the likelihood of a substantial shortage. The closure of the Cobre Panama mine at the end of the last year tightened the market as it produced 1.5% of a global copper supply. In addition, a commodity giant, Glencore reported lower copper production in 2023, expecting a further decline in 2024. Difficulties in production have become widespread within the industry, and with minimal supply growth expected across most mining commodities, prices are expected to rise significantly over the next year.

Ferrosilicon

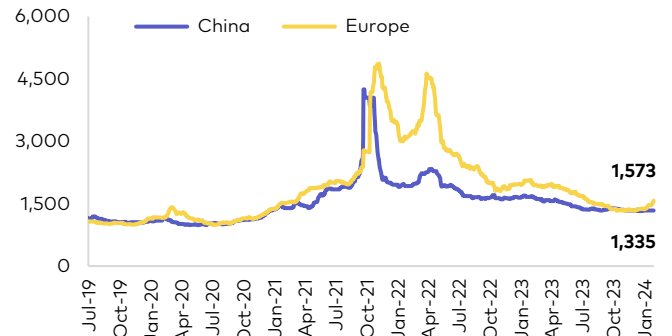
In January 2024, Chinese ferrosilicon stayed constant at \$1,335 per ton, while its European counterpart showed an unusual increase of 13.8% m/m. This could potentially be a reversal in price trend for the European commodity, but it still remains 23.8% lower y/y. Notably, pick up in prices started in Dec-23, that translated into circa 2.4x export value of Georgian ferroalloys in December 2023 compared to previous 11-month average figure.

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



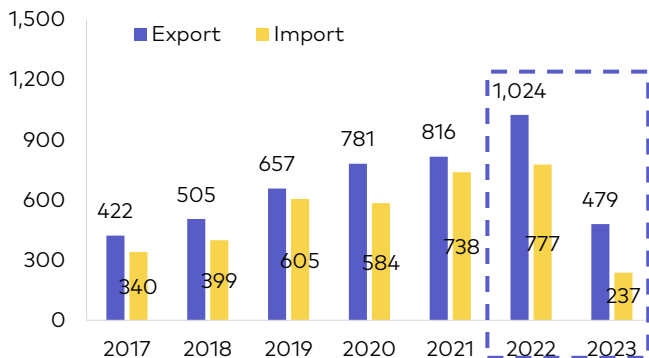
Source: Bloomberg

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



Source: Bloomberg

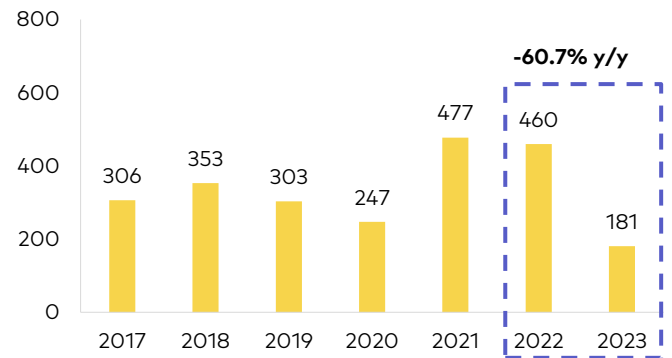
Figure 13: Copper (including ores) external trade of Georgia, US\$ mn



The majority of copper external trade is driven by re-export and depends on external factors. The value of exported copper decreased by circa 53% y/y in 2023 to US\$ 479mn.

Source: Geostat

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



The ferroalloy export value decreased by 60.7% y/y in 2023, which can be explained by a sharp decline in prices, prompting producers to cut production.

Source: Geostat



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