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CREATING OPPORTUNITIES



Commodities

Monthly Outlook

12 September 2024



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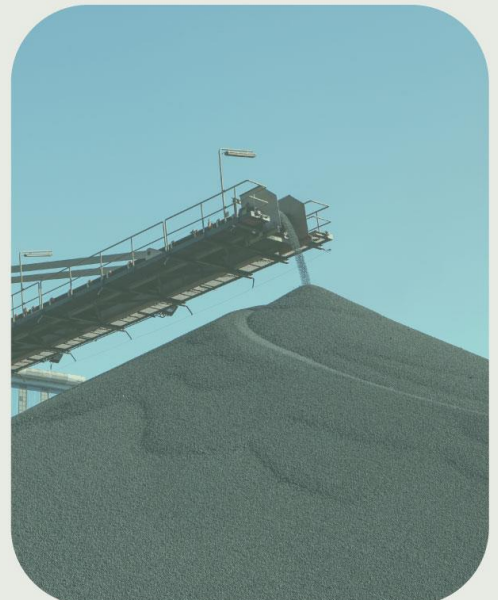
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Commodity price dynamics

Commodity	Price	Change, m/m*	Change, YTD	Price change from Jan-2021
Ammonium Nitrate US\$/ton	247.5	+7.6%	+37.5%	
Brent Oil US\$/bbl	78.8	-2.4%	+2.3%	
Copper US\$/ton	9,118.1	+0.2%	+7.7%	
Ferrosilicon (China) US\$/ton	1,315.0	-0.8%	-1.5%	
Ferrosilicon (Europe) US\$/ton	1,436.5	-1.6%	+3.9%	
Gold US\$/troy oz	2,503.4	+2.3%	+21.3%	
Natural gas US\$/mwh	43.1	+13.1%	+38.1%	
Wheat US\$/ton	212.0	+1.0%	-19.2%	

Source: Bloomberg

Note: prices as of 30 August, 2024

*m/m prices reflect end of month figures



Energy

Brent oil

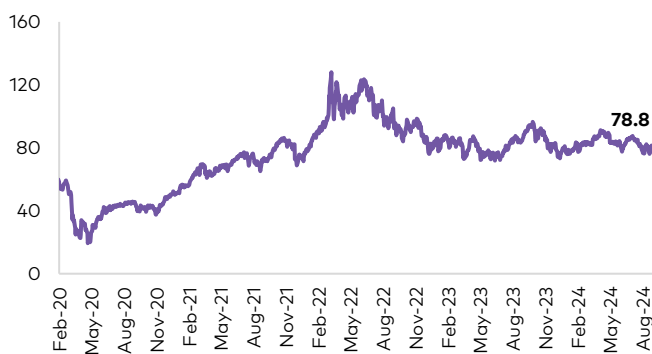
In August 2024, Brent oil price was down 2.4% m/m. The month saw sharp price volatility with bullish and bearish sentiments swapping dominance. In the beginning of August, fears of escalation in the Middle East peaked with reports of Israel bracing for Iranian attack by preparing blood supplies and underground bunkers. Although the attack did not materialize, another regional conflict in Libya added on to the oil price premium.

Libya is governed by two opposing governments – one based in Tripoli, other in Benghazi. Central bank of the OPEC member country controls billions of dollars in oil revenue on which both parties want to gain more control. Tripoli-based prime minister has been pushing for removal of Sadiq al-Kabir, central bank governor. In response, eastern Libyan government announced closure of all oil fields, production, and exports. The news sent oil prices spiking (3% in a single trading session), as Libya produces 1.2mn barrels per day, making it one of the key suppliers of the global market. According to the data by National Oil Corporation, if daily production levels stood at 1.27mn barrels on August 1, it declined to just 590k by August 28. Later though central bank governor said there were “strong” indications of a compromise, alleviating the fears of major and lengthy supply disruption.

On the other side, concerns about the global economy health renewed, primarily driven by China’s PMI (Purchasing Managers’ Index), which continued contraction in August – 4th consecutive month. Dim outlook of demand weighed on prices, pushing it to this year’s lows. Consequently, OPEC announced its decision not to bring full production back on the market until at least December 2024. Neither this bullish sign could lift oil prices though. Top investment banks cut price forecasts for 4Q24, with Morgan Stanley forecasting average price of \$75 per barrel, while Citi expects Brent to touch \$60 next year.

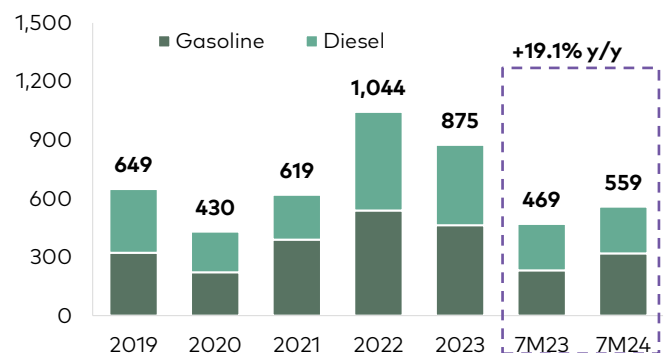
Russia extended gasoline export ban until the end of 2024. It was initially introduced as a 6-month ban starting from March 2024 in order to stabilize the domestic market following the Ukrainian strikes on Russian oil infrastructure.

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 5.7% y/y in 7M24 and reached 684 tons, equivalent to US\$ 559mn. Average import price grew by 12.6% over the same period.

Source: Geostat



Energy

Natural gas

In August 2024, natural gas price was up 13.1% m/m. The rally was driven by several key factors including the war in Russia, increasing demand in Egypt, and maintenance in Norway, all potentially affecting the supply of Europe.

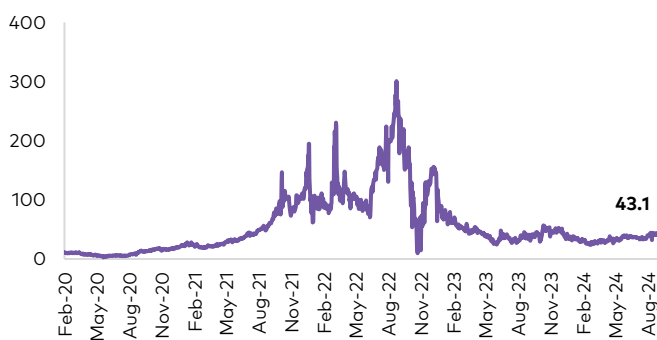
Ukraine launched its largest attack on Russian territory, Kursk region, seizing the town of Sudzha, that accommodates key gas-transit point sending Russian gas to Europe. Russian flows via Sudzha meet only 3-5% of EU gas demand and the contract expires at the end of 2024, but any unexpected disruption could drastically affect the supply-demand balance. Hence the prices quickly jumped, reaching highest levels this year. Although the flows continued normally, other factors held the price elevated.

Europe becomes increasingly dependent on liquefied natural gas (LNG). Due to its easier transportability by vessels (unlike pipeline gas, which is a regional product) EU now has to compete with other LNG buyers, mostly developing Asia. The competition holds higher importance during heating (winter) and cooling (summer) months, keeping pressure on prices. Notably, Egypt is a latest addition to the competition as the nation had to turn to imports following the production outages due to record-hot summer. Reportedly, Egypt is seeking 20 cargoes of LNG to prepare for winter.

Norway, that supplies c. 30% of Europe’s natural gas, has entered its maintenance season. As the maintenance has been long planned, it now has no significant effect on the market, but any delay or disruption may spike prices. Notably, delays are not unusual for the operations with such complexity.

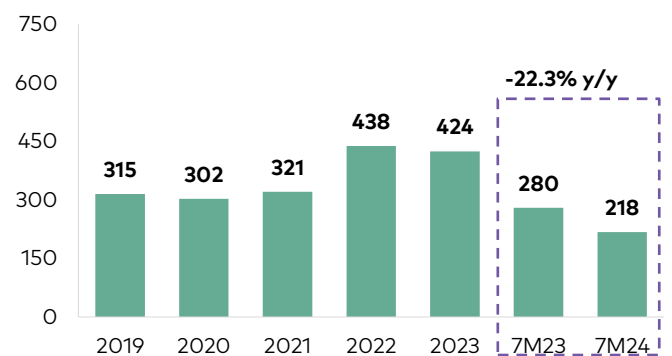
Almost full gas storages in Europe give traders a glimpse of hope for stable market moves. Inventories stand at more than 91% in EU, higher than target 90%. Additionally, China’s storages are at unusually high level too, partly driven by lower consumption due to slow economic activity. Consequently, ample supplies may hint at relatively more stable prices in upcoming months, but colder than expected winter should inject fresh volatility into the market.

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 7M24 and was mostly driven by the lower import price as the volume decreased only by 7.8% y/y.

Source: Geostat



Precious metals

Gold

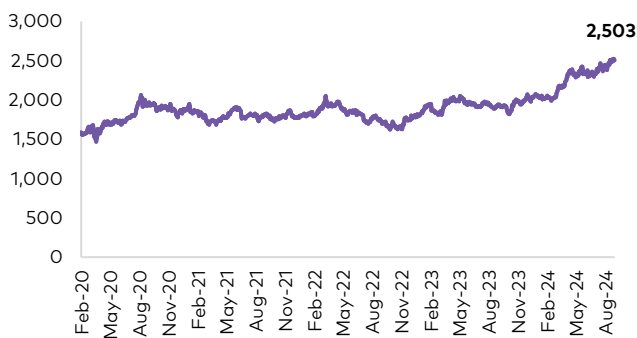
In August 2024, gold price was up 2.3% m/m. Gold breaking above another record-high price became usual news in recent months, settling above \$2,500 per troy ounce for the first time in August. However, this time around it is a little different. 20-month rally that was started and driven by central banks and Asian investors is finally acknowledged by the western traders. "The west is waking up to what Asia has been tracking earlier this year," says the chief executive of London Bullion Market Association.

Gold's recent rally from \$2,300 to \$2,500 seems to have been driven by European and US investors piling into the precious metal before expected rate cuts by central banks, specifically Federal Reserve. Lower borrowing costs increase attractiveness of gold as it becomes more competitive to lower-yielding treasuries. Therefore, investors were awaiting clear signals from the Fed that the rate cut was imminent. Last month the message was clear as it can be – the head of US central bank said "the time has come" to start cutting interest rates. The next Fed meeting is scheduled for September 17-18 and the market is expecting at least 25 basis point reduction.

Earlier this year, despite price gradually increasing, bullion-backed exchange traded funds (ETFs) saw net outflows of funds, partly because investors preferred to have access to physical gold rather than having it on an exchange. However, since June the trend seems to have reversed with ETFs showing net inflows in two consecutive months. In addition, demand from India has picked up again due to upcoming Diwali festival in late October. Imports are likely to surge at least until then, especially as the import duties were recently cut.

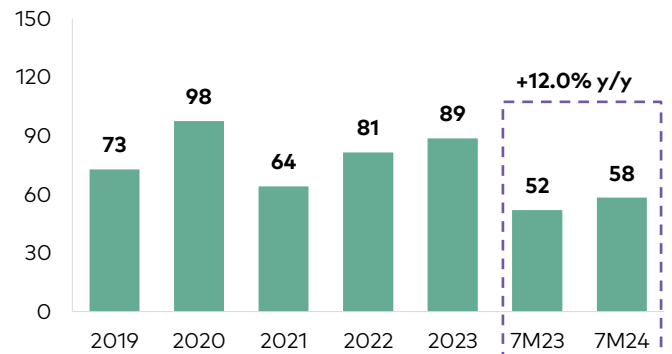
Gold has gained 21.3% in value so far this year, making it one of the best-performing commodities in 2024. Taking demand dynamics and existing geopolitical risks into account, the rally is expected to remain strong. According to UBS gold is heading toward \$2,700 by the middle of 2025.

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



Source: Bloomberg

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



The gold export volume was down 7.8% y/y in 7M24. Notably, following the global price surge, average export price was up by 21.5% y/y in 7M24, increasing export value by 12.0% y/y.

Source: Geostat



Agriculture

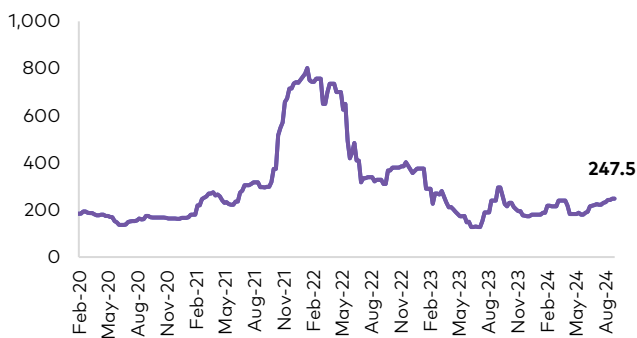
Ammonium nitrate

In August 2024, ammonium nitrate price was up 7.6% m/m. Global fertilizer supply especially that of urea face notable constraints as the exports from China remains limited due to government decision. As of July, China has shipped a lot lower quantities of urea than previously expected. The situation is similar in other key producers too. Egypt had to cut back on production as the natural gas was re-routed to power grid stabilization amid hot summer temperatures. Production issues are also reported in Malaysia, Russia, and Nigeria.

Wheat

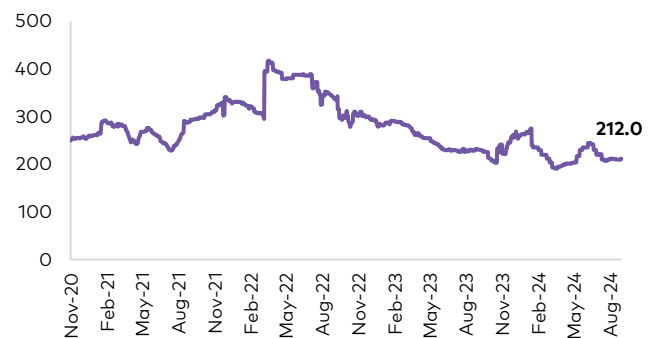
In August 2024, wheat price was up 1.0% m/m. Prices remain 19.2% lower than the beginning of the year, but the effects of bad weather is slowly taking over. France, EU's largest producer, is expected to yield 26mn tons of wheat this year, 26% lower y/y. Nation's grain exports are likely to drop to the lowest since 2001-2002. Similarly, heat waves adversely affected the wheat crops in China over the summer. On the contrary, other producers manage to more-or-less fix the imbalance with Russia exporting 5.6mn tons of wheat in August, record amount for the month.

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



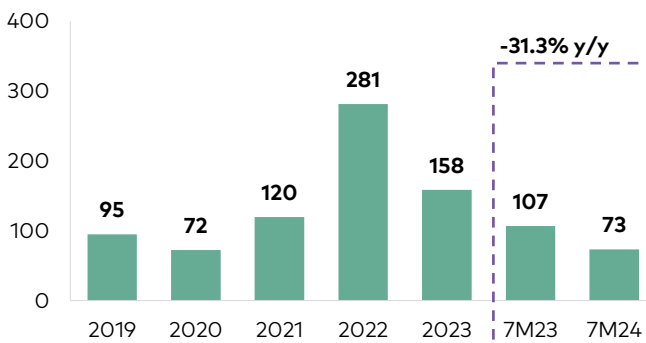
Source: Bloomberg

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



Source: Bloomberg

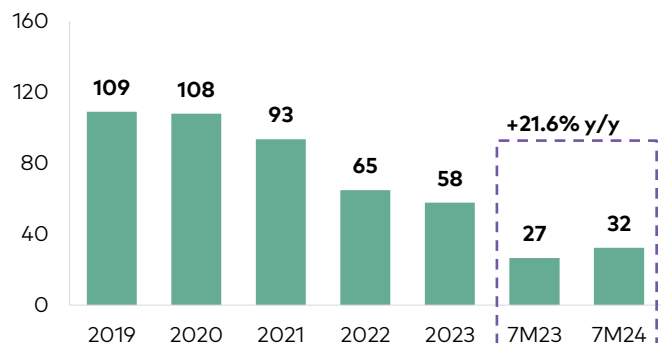
Figure 9: Nitrogenous fertilizers export from Georgia, US\$ mn



The nitrogen fertilizers export value decreased by 31.3% y/y in 7M24. Notably, the decline was driven by significantly reduced average price (-37.0% y/y), as the export volume increased by 9.1% y/y.

Source: Geostat

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



Wheat import value increased by 21.6% y/y in 7M24, while the volume increased by a significant 44.4% y/y, driven by the lower average import price (-15.8% y/y).

Source: Geostat



Metals & ores

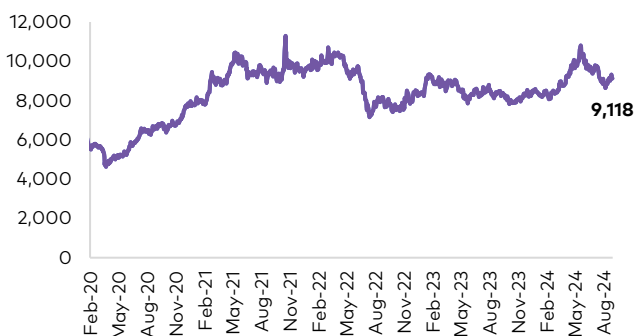
Copper ores and concentrates

In August 2024, copper price was up 0.2% m/m. Despite the marginal gain, outlook for the red metal looks gloomy. Goldman Sachs, its biggest supporter has exited a long-term buy position on copper and reduced its forecasted price from \$15,000 per ton to \$10,100 for next year. The main reason was named to be softer than expected demand from China and risks related to its economy. However, it does not mean the rally is over, it is just "delayed" per Goldman. According to the report, momentum is likely to return but much later than previously anticipated.

Ferrosilicon

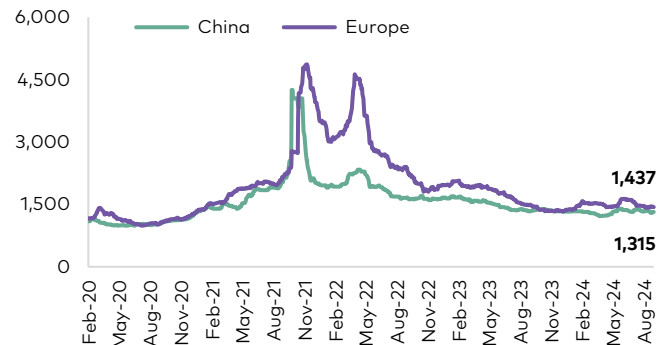
In August 2024, European ferrosilicon price was down 1.6% m/m, while its Chinese counterpart lost 0.8% m/m. Much like other metals, slump in ferrosilicon prices is induced by the weak Chinese economy. Iron ore price fell below \$90 per ton since 2022 as the industrial demand waned. It remains one of the worst performing commodities in 2024 with prices down by c. third. Benchmark price of rebar hovers around the cheapest since 2017, while hot-rolled coil trades at lowest in 4 years.

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



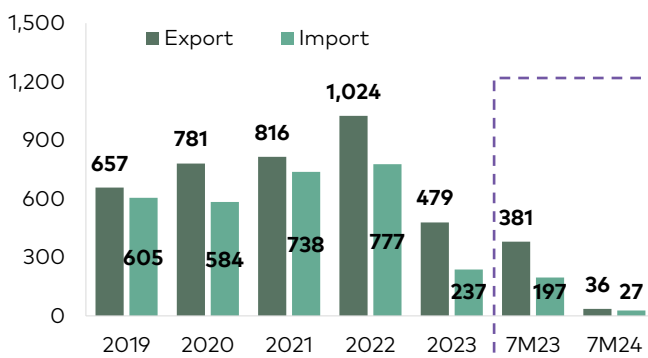
Source: Bloomberg

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



Source: Bloomberg

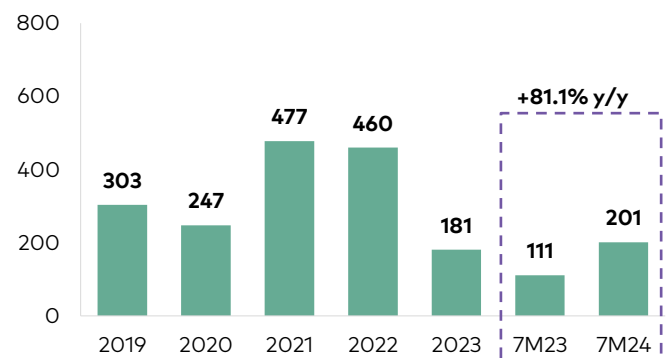
Figure 13: Copper (including ores) external trade of Georgia, US\$ mn



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 7M24.

Source: Geostat

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



The ferroalloy export value increased by 81.1% y/y in 7M24, while the export volume almost doubled (+95.2% y/y) and reached 177k tons.

Source: Geostat



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