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CREATING OPPORTUNITIES

Commodities

Monthly Outlook

8 October 2024

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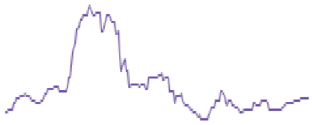
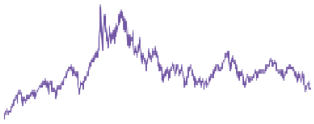
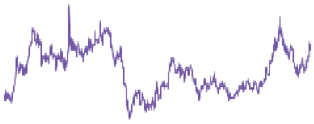
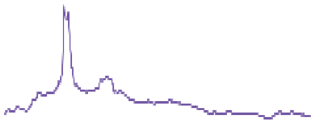
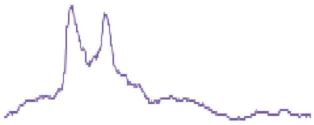
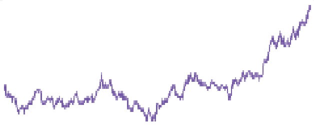
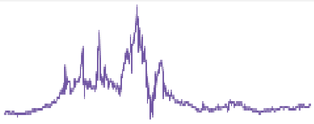
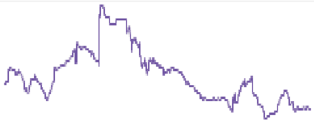
Commodity price dynamics

Commodity	Price	Change, m/m*	Change, YTD	Price change from Jan-2021
Ammonium Nitrate US$/ton	**247.5**	**+0.0%**	**+37.5%**	
Brent Oil US$/bbl	**71.8**	**-8.9%**	**-6.8%**	
Copper US$/ton	**9,692.0**	**+6.3%**	**+14.5%**	
Ferrosilicon (China) US$/ton	**1,285.0**	**-2.3%**	**-3.7%**	
Ferrosilicon (Europe) US$/ton	**1,416.3**	**-1.4%**	**+2.4%**	
Gold US$/troy oz	**2,634.6**	**+5.2%**	**+27.7%**	
Natural gas US$/mwh	**44.0**	**-0.4%**	**+41.1%**	
Wheat US$/ton	**210.0**	**-0.9%**	**-19.9%**	

Source: Bloomberg
Note: prices as of 30 September, 2024

*m/m prices reflect end of month figures

Energy

Brent oil

In September 2024, brent oil price was down 8.9% m/m. Despite the few bullish factors, prices continued declining amid oversupply and underconsumption concerns. Investors kept close attention to the Middle East, US and China central banks, and OPEC supply during the month. The month's decline was quickly overturned by sudden surge of prices in the beginning of October, following the significant escalation between Israel, Hezbollah, and Iran.

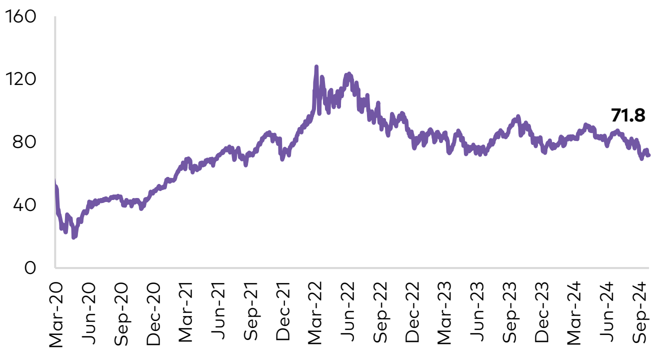
Israel has upped the pressure on Hezbollah. First, they attacked communication systems by exploding thousands of pagers and walkie-talkies. Then, with the massive airstrike took out the group's leader Hassan Nasrallah, leaving Hezbollah "decapitated". Finally, launching a ground offensive in Lebanon on the 1st of October. Iran immediately responded with sending 180 ballistic missiles towards Israel, further destabilizing the region. Oil prices jumped on the news, gaining c. 5.5% in two trading sessions (1-2 October). The price jumped another 5% to US$ 78 immediately after Biden said US was discussing whether to support Israel's retaliatory strikes on Iran's oil infrastructure.

Moreover, oil prices responded immediately with a slight gain to Fed's 50bps rate cut in September, as the lower interest rates support economic activity and the oil consumption. People's Bank of China (PBOC) followed a similar path too (lowering interest rates). In addition, Chinese government introduced a massive package aimed at reviving the economy. As discussed many times before, low Chinese demand has an important negative effect on prices as the nation remains one of the largest consumers of oil and oil products.

Meanwhile, conflict in Libya deescalated as opposing sides agreed to appoint a new central bank governor, meaning the country's oil flows will resume uninterrupted in the near term. Similarly, additional supply is expected from Saudi Arabia. The Kingdom had its unofficial price target set at $100 per barrel, however despite the large production cuts, price kept declining. Additionally, due to increasing supplies from elsewhere, Saudi Arabia was losing market share. According to Financial Times, officials are planning to abandon the $100 price target and start gradually increasing supply starting from December 2024. Increased supply is likely to reach 1mn barrels per day by the end of 2025.

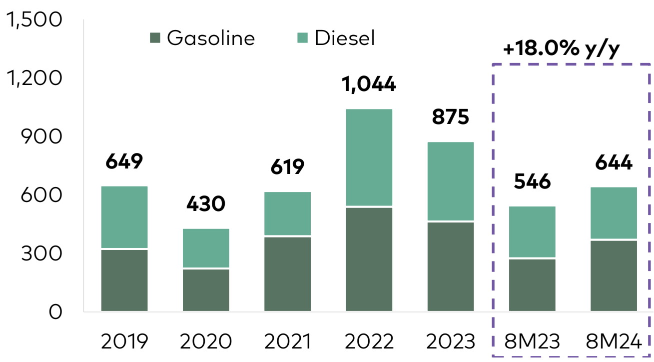
In conclusion, oil price decline in September was the continuation of worries about global demand and increasing supplies. However, lower rates and more importantly, possibility of all-out-war in Middle East may quickly reverse the trend. According to the preliminary estimates, prices may increase by anywhere between US$ 7-28 per barrel, depending on the magnitude of further escalations.

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 6.6% y/y in 8M24 and reached 792 tons, equivalent to US$ 644mn. Average import price grew by 10.7% over the same period.

Source: Geostat

Energy

Natural gas

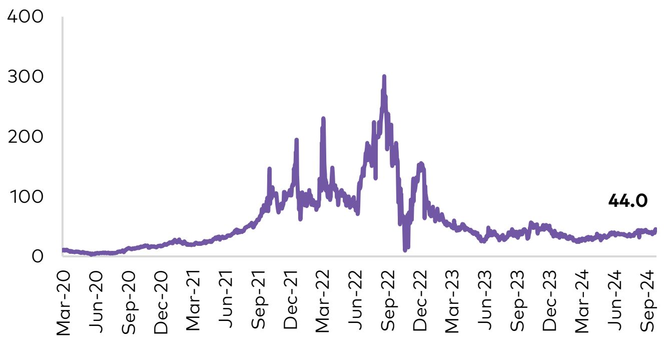
In September 2024, natural gas price was down 0.4% m/m. Despite a marginal monthly decline, price is up 11.1% since mid-September. Traders assessed risks related to winter supplies and potential rise in demand amid cold weathers.

Russian flows via Sudzha (city captured by Ukraine in Kursk region) remain stable, but the military operations are still active in Russia's Kursk region, worrying natural gas buyers. Future of these flows are yet to be decided. As reported earlier, transit deal between Russia and Ukraine is set to expire at the end of 2024. With three months to go, there is no official statements confirming how (and if) the contract will be renewed. Reportedly, there are ongoing negotiations between different parties, but any hints on actual decisions are not publicly available. As of now, there are no guarantees that an agreement will be reached as the EU may be risking reputational damage if it continues to use the Russian pipeline.

The market remains on alert for other bullish factors too. Although the gas storages in Europe are 94% full (above target 90% level), any unexpected disruption may inject new wave of volatility. First and foremost is the potential demand in Europe and elsewhere. A short-lived cold weather in October will lower gas injections in storages, using it for more heating. In addition, maintenance works on the Norwegian pipeline are still active, temporarily lowering the supply, but the pipeline is expected to continue operations at full capacity in near future. Therefore, if the winter turns out to be colder and longer than last year, demand will be significantly higher. The situation worsens if Asia experiences a similar demand growth. Europe and Asia (along with other regions) are in competition for LNG cargoes, on which Europe has increased dependence.

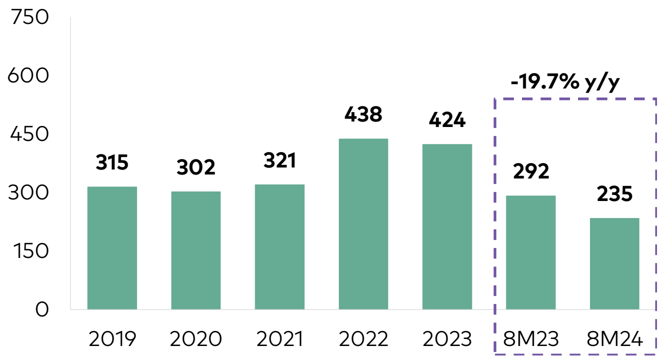
Consequently, as of right now, the natural gas market is relatively stable, but may be easily destabilized by sudden and unexpected demand surge. In case of milder winter, ample storages should help Europe to endure heating season with no significant volatility.

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 19.7% y/y in 8M24 and was mostly driven by the lower import price as the volume decreased only by 6.3% y/y.

Source: Geostat

Precious metals

Gold

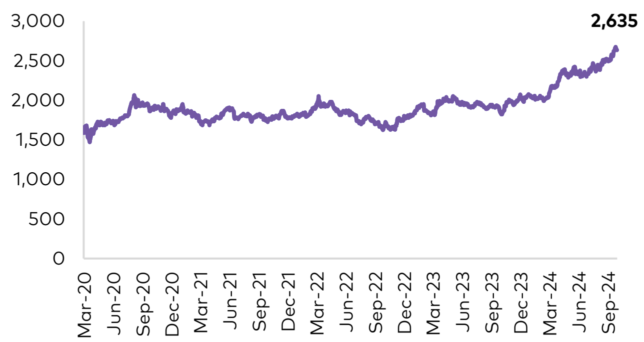
In September 2024, gold price was up 5.2% m/m. Precious metal kept braking new records in all four weeks of September, primarily driven by interest rate cuts and supported by Middle East tensions and Indian demand.

Gold rallied past two years despite the central banks' interest rates being high. Therefore, now when the cutting cycle is underway, gold finds another boost. US Federal Reserve started cutting rates in September with a 50bps cut. This decision supported another gain of the precious metal. Later, US consumer confidence data showed the largest decline in three years, hinting at possibility of deeper cuts by Fed. As of now, traders expect further 75bps reduction by the end of year, meaning one 50bps and one 25bps cuts. Meanwhile, ECB too has started the cutting cycle, lowering rates once more by 25bps in September. Lower rates in large economies aid gold price as it becomes more attractive compared to low-yielding treasuries. Hence, money managers' bullish bets on gold have jumped to 4-year high in late September.

Price rally in high-yield environment over the last two years was mostly driven by existing geopolitical risks. Latest escalation in the Middle East hoarded investors back into safe havens, including gold. With the possibility of further escalations on the table, White House elections approaching, and other global uncertainties elsewhere, gold price is likely to find support at least near the current levels.

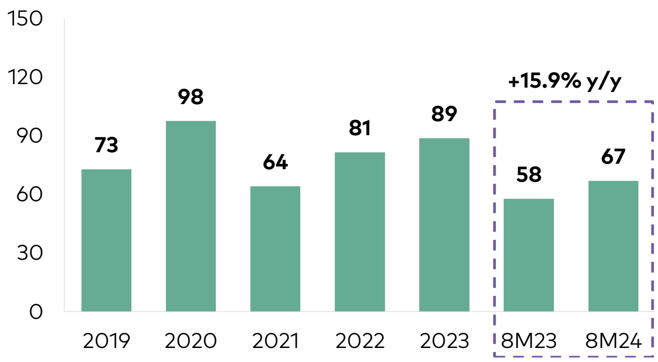
In addition, as reported earlier, fundamental factors (physical demand on gold) remain healthy, primarily driven by Indian consumers. As Indian demand tends to be more about consumption than investment, it is more price-sensitive. Consequently, price rally was damaging the country's demand for jewellery. However, the government introduced 9% cut on import duties on gold at the end of July, easing pressure. Right after, in August, gold import value reached US$ 10.1bn in India, record-high amount. Demand is expected to remain elevated until February 2025, as September-February period hosts wedding and multi-month festivals season, starting with Diwali festival.

Figure 5: Gold price, US$/troy ounce



Source: Bloomberg

Figure 6: Gold export from Georgia, US$ mn



The gold export volume was down 5.5% y/y in 8M24. Notably, following the global price surge, average export price was up by 22.6% y/y in 8M24, increasing export value by 15.9% y/y.

Source: Geostat

Agriculture

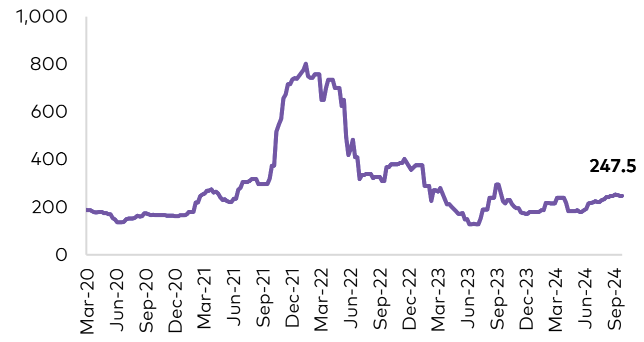
Ammonium nitrate

In September 2024, ammonium nitrate price stayed constant at US$ 247.5 per ton. Fertilizers are short of sustaining 2023 demand growth so far in 2024. As the agricultural commodities (wheat, corn, etc.) showed gradual price declines over the year, affordability of the fertilizers declined. According to RaboBank, demand is set to see only a little increase in 2024, followed by marginal gains in 2025-2026. Natural gas prices are of high importance too, as sudden surge could further lower fertilizer affordability due to higher production costs.

Wheat

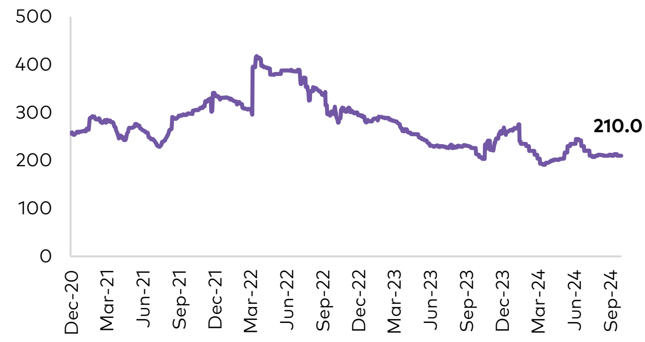
In September 2024, wheat price was down 0.9% m/m. Kyiv reported Russian missile has attacked Ukrainian grain ship in neutral waters in the Black Sea. Although Russia has long been damaging the grain-export infrastructure, hit on a ship was its first. Attack inflated the prices for a bit, but they soon retreated as the flows continued uninterrupted for now. Meanwhile, poor weather in large producer countries and low Chinese demand more-or-less balance each other. However, any future mismatch between demand and supply dynamics may easily tip the prices.

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



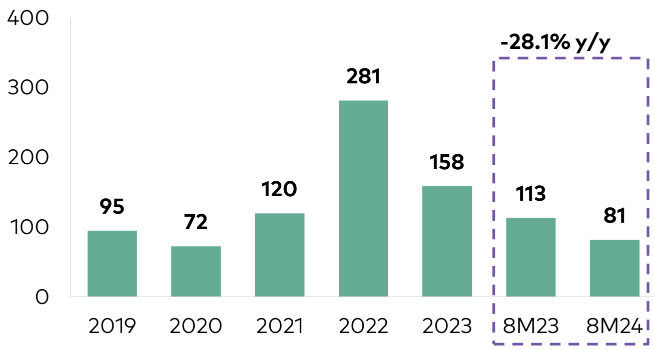
Source: Bloomberg

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



Source: Bloomberg

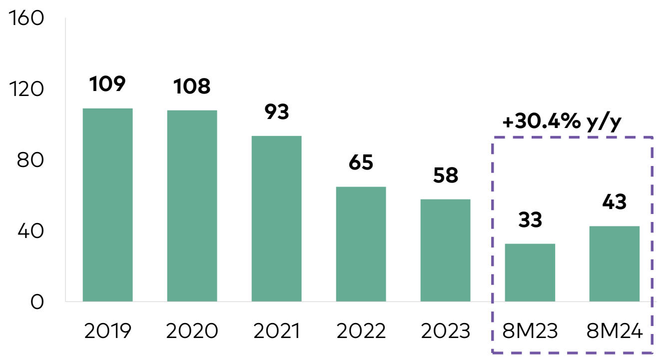
Figure 9: Nitrogenous fertilizers export from Georgia, US$ mn



The nitrogen fertilizers export value decreased by 28.1% y/y in 8M24. Notably, the decline was driven by significantly reduced average price (-33.9% y/y), as the export volume increased by 8.9% y/y.

Source: Geostat

Figure 10: Wheat import to Georgia, US$ mn



Wheat import value increased by 30.4% y/y in 8M24, while the volume increased by a significant 51.1% y/y, driven by the lower average import price (-13.7% y/y).

Source: Geostat

Metals & ores

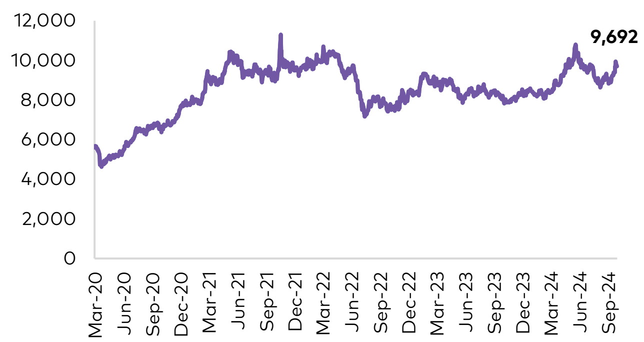
Copper ores and concentrates

In September 2024, copper price was up 6.3% m/m. China's latest stimulus package and the outlook of further cuts in US interest rates fueled gains of metals, including copper, temporarily pushing it above US$ 10,000 per ton. Macro factors turned favorable for the red metal, but traders remain more cautious, compared to last spring's rally that saw prices breaking records. Meanwhile, copper producers warn the deficit will worsen over the next decade, potentially "delaying" energy transition. Per BHP, rise of AI data centers could boost copper demand by 3.4mn tonnes per annum by 2050.

Ferrosilicon

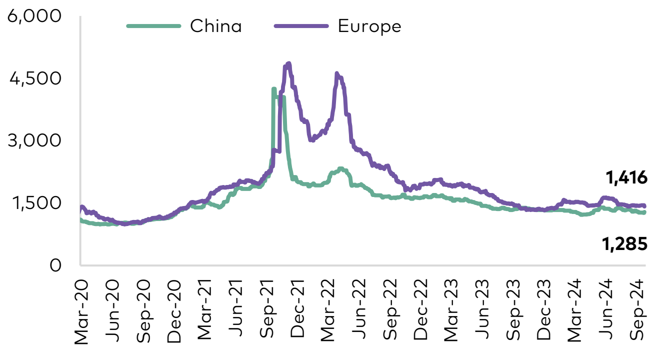
In September 2024, European ferrosilicon price was down 1.4% m/m, while its Chinese counterpart shed 2.3%. Despite the declines, sentiment turned a bit positive following the China's stimulus package aimed at failed real estate sector. However, it has yet to prove its effectiveness for the prices to increase sustainably. Lower global prices affected local producers in Georgia, where Georgian Manganese plans to lower its ferroalloy output by c. 60%, and per GeoFerroMetal, they are not likely to resume production in the near term due to price dynamics.

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



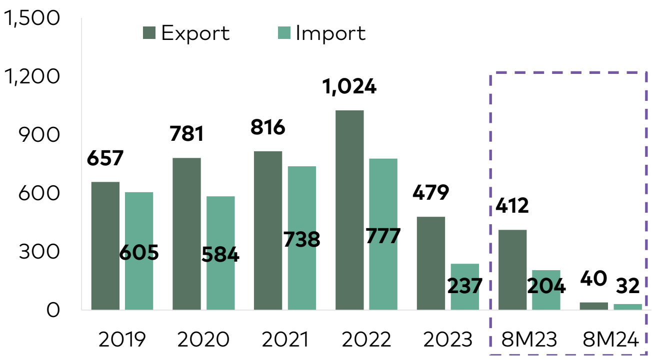
Source: Bloomberg

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



Source: Bloomberg

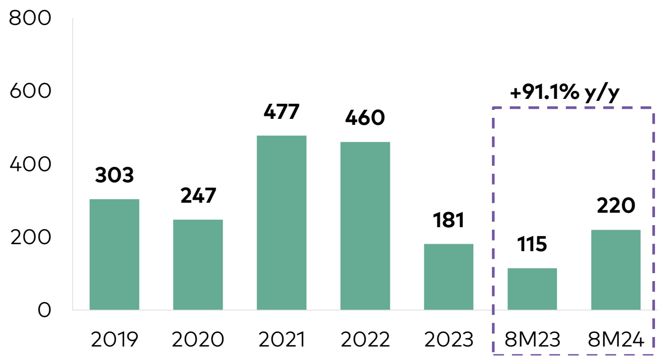
Figure 13: Copper (including ores) external trade of Georgia, US$ mn



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 8M24.

Source: Geostat

Figure 14: Ferroalloy export from Georgia, US$ mn



The ferroalloy export value increased by 91.1% y/y in 8M24, while the export volume more than doubled (+102.3% y/y) and reached 191k tons.

Source: Geostat

Disclaimer

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