UCHICAGO COMMODITIES

WEEKLY REPORT

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ENERGY: NEW SPAIN–FRANCE CABLE WILL NARROW, NOT CLOSE, THE POWER PRICE GAP

On November 1, 2026, the price of wholesale electricity in Spain fell below €0 per megawatt-hour (/MWh) at 3 p.m., while wholesale electricity in France was €208/MWh, for the same hour. Just five hours later, Spain's price had climbed to €262/MWh. Solar power generation in Spain often exceeds midday demand, and minimal connection to other European grids limits its export ability.

The Bay of Biscay interconnector, scheduled to be complete in 2028, will increase the Spain–France trading capacity by 80% from 2.8 gigawatts (GW) to 5 GW, affording Spain the ability to sell its midday power surplus. However, France too frequently has a midday surplus so the potential gain in the interconnector will likely come during specific hours when France exhibits a tight market.

We project the Bay of Biscay project to increase Spanish power prices and pull French prices down marginally; together, the gap between the two nations is expected to decrease.

Spain's Solar Surplus Is Stuck at Home

The frequency of Spain's reported negative-price hours are increasing. In 2025, the country recorded 555 negative-price hours, with 48 cases in 1Q2025. In 1Q2026, nearly 400 cases were recorded. By June 2026, Spain had logged 596 cases, the most in Europe (see Figure 1).

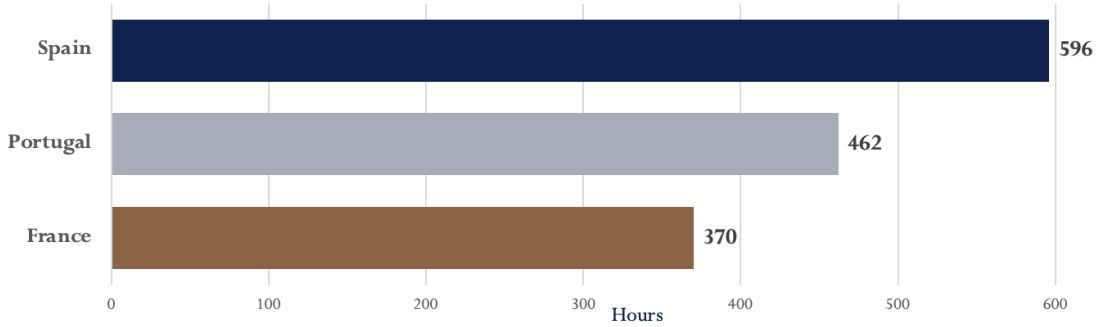

FIGURE 1: NEGATIVE-PRICE HOURS BY COUNTRY (FIRST HALF OF 2026)

Importantly, while prices go into the negatives, it is rarely by much. Most Spanish solar sells at market prices without subsidy, so generators stop offering power at €0/MWh instead of paying to produce power. Consequently, Spain's reported lowest hourly price in 2026 was -€9.8/MWh, compared with −€499/MWh in Germany. Lower prices decrease profits: Spain's solar capture price, the average price solar earns, fell from €43/MWh in 2024 to €28/MWh in 2026.

Spain could sell more of that surplus abroad, but its connection to France is strained. The current 2.8 GW cable was congested in 67.6% of hours in the 2024 day-ahead market. Spain's interconnection with the rest of Europe equals only 2% of its generating capacity.

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A Second Lane to France

The Bay of Biscay interconnector is a high-voltage direct current (HVDC) link of nearly 400 km, with 300 km of it under the sea, running from Gatika to Cubnezais. Built by Inelfe, Red Eléctrica, and RTE, cable laying began in August 2026 and is expected to be completed in 2028 (currently, the project is 70% complete). Financing includes €1.6 billion in European Investment Bank loans and a €578 million European Union grant.

However, more capacity only matters when prices differ on each side of the border. Trade is normally balanced: in 2025, France exported 7.6 terawatt-hours (TWh) to Spain and imported 7.4 TWh from it. The direction flips during the day (see Figure 2). Between 8 a.m. and 9 p.m., France's average price was higher than Spain's in every hour of 2026, with the widest gap, €42/MWh, at 6 p.m.[1] Between 9 p.m. and 8 a.m., Spain is the pricier market, and power is imported from France.

PERIOD	SPAIN HOURS AT OR BELOW €0/MWH COUNT	PRICE DIFFERENTIAL WITH FRANCE EXCEEDS €20/MWH COUNT
Jan–Mar	364	149 (41%)
Apr–Jun	418	44 (11%)
Jul-Sep	168	16 (10%)
Oct-Nov. 13	35	21 (60%)
Total	**985**	**230 (23%)**

TABLE 1: OCCURANCES OF SPANISH POWER BELOW $0/KWH, PRICE DIFFERENTIAL WITH FRANCE EXCEEDS $20/KWH (JAN. 1–NOV. 13, 2026)

Outlook

Completion of the Bay of Biscay interconnector with increase Spanish power export capacity. Consequently, when Spain experiences oversupply, they may increase exports to France; the resultant decreased supply in Spain will increase Spanish prices and increased French supply with decrease French prices. However, the price impact on France power will be small because its market, relative to Spain's, is larger.

Leveraging price data from the 2015 cable – which doubled capacity to 2.8 GW – can demonstrate the potential price impact of the Bay of Biscay project. Following completion, the 2025 cable decreased the average Spain–France price gap by €5/MWh from an initial differential of €15/MWh.

The Bay of Biscay cable increases export capacity by 80%. Consequently, we expect the average hourly gap between the two markets in 2029, the cable's first full year, to decrease by €5–8/MWh on a price gap of €20–31/MWh. Most of that differential cut will occur from October to March; in spring and summer, both markets will keep flooding together at midday.

Looking forward, Spanish solar and batteries should earn better capture prices after 2028, mostly during the colder months, although the cable will compete with batteries for the same midday

[1] Then, Spanish solar is still producing but French evening demand is rising.

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surplus. Moreover, the value of Spain–France capacity rights should fall as the bottleneck eases, which also shrinks the congestion income grid operators earn from selling space on a full line. The 2026 annual auctions allocated 819 MW southbound and 680 MW northbound and raised about €160 million; results for 2027 capacity, auctioned in rounds through the Joint Allocation Office, with final rounds expected this December. Finally, gas still sets Spain's evening price, so the cable does not remove gas exposure: Spain's price has averaged €197/MWh so far in November.

Delays in completing the new connection on time could potentially push back the expected benefits, while stronger nuclear production in France could also reduce them. Also, if Spain expands its battery capacity faster than we are expecting, more of its excess electricity could be stored domestically rather than exported. Even with this new connection bringing capacity to 5 GW, Spain will still have limited access to the rest of Europe's electricity network. This is why the EU is pushing for two more connections through the Pyrenees, with the goal of reaching a capacity of 8 GW by 2040.

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AGRICULTURE: U.S. FARMING INDUSTRY TO LIKELY CONTINUE TO FACE HIGH COSTS DESPITE DEMOCRATIC CONGRESS

Farm-state voters such as those in Kansas and Iowa leaned Democrat during the 2026 United States (U.S.) Midterms, driven largely by high costs, including diesel. The national average price of diesel increased by 65% from February to November 2026, and the cost burden fell during harvest season. However, a Democratic Congress does not have direct power over the main drivers of increased costs. Instead, policies of influence include emergency aid, the farm bill, and SNAP (the federal food-stamp program). Congress does not have direct power over the conflict in Iran nor tariffs imposed by executive action through the White House.

The most tangible near-term change for agriculture – in the power of Congress – will therefore come through spending and the farm bill, while the variables that matter most for farmers in the U.S. and abroad (e.g., diesel, fertilizer and China's soybean buying) remain outside Congress' control. Accordingly, we expect diesel to stay near $5.40 per gallon through the spring planting season.

Increased Cost Inputs for Farmers

Tariffs have hurt farmers on both costs and selling prices. Tractors and other farm equipment have become more expensive under the 15%, Section 232 tariff. China stopped buying U.S. soybeans – historically has been 26 million tons per year – from June to October 2025 in retaliation of U.S. tariffs and began sourcing from South America. However, purchases resumed after the Trump-Xi truce, under which China pledged to buy 25 million tons per year through 2028. Importantly, China's tariff on U.S. soybeans remains at 13% (compared with 3% before the retaliatory tariffs), and outside the pledged purchases, Chinese private importers have stayed out of the U.S. market.

Elevated fertilizer prices are a second cost shock, driven by the conflict in Iran which halted exports through the Strait of Hormuz ("Strait"). The Persian Gulf – which exports through the Strait – supplies 17% of urea[2] used in the U.S., so the closure of the Strait directly impacted nitrogen prices. For corn growers, this price increase resulted in an additional $30 to $55 per acre in nitrogen costs. USDA expects fertilizer and soil input spending to reach $39.6 billion in 2026, up 15.3% from 2025 (see Table 1). Farmers are paying more to grow crops that sell for less.

Closure of the Strait has also impacted diesel supply, a derivative of crude oil since 20% of global crude supply passes through the Strait. Decreased diesel supply, consequently, has increased diesel prices. By June 2026, the U.S. price of diesel had increased by 40% since the conflict began in February 2026. Following increased tensions in late August, diesel reached a record $6.53 per gallon on September 21, when farmers were harvesting corn and soybeans and planting wheat (see Figure 1). Illinois fuel costs increased to $28 per acre from $22 per acre in 2025.

[2] A primary fertilizer component.

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FIGURE 1: U.S. AVERAGE ON-HIGHWAY DIESEL PRICE, 2026 ($ PER GALLON)

Together, these price shocks are projected to increase production expenses for farmers (see Table 1). However, net farm income is forecast to fall by just 5.5% since direct government payments, including ad hoc aid and farm bill programs, are forecasted at $47.4 billion, up nearly 70% from 2025. Without these government interventions, income would have dropped by 15%. Government payments, not crop sales, have preserved farm income. Washington has persevered the economics of the American farm industry.

ITEM	2026	CHANGE FROM 2025
Fuel and oil expenses	$21.6B	+28.8%
Fertilizer and soil inputs	$39.6B	+15.3%
Total production expenses	$492.8B	+$21.2B (+4.5%)
Direct government payments	$47.4B	+$19.5B (+70%)
Net farm income	$158.4B	-5.5%
Net farm income absent payment increase	$138.9B	-14.6%

TABLE 1: WHERE THE 2026 FARM BUDGET CHANGED (USDA SEPTEMBER FORECAST)

Impact of Democratic Congress

Democrats will hold a majority in both the U.S. Senate and House but – given current election results – is short of the requisite numbers to override a veto by the President. Democrats' main tariff bill would repeal the tariffs on Canada and the global tariff of 10% but would leave the Section 232 tariff on machinery in place. Yet, even if the relevant tariffs are removed, its effect on crop prices would be limited.

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China sets its own 13% soybean tariff, and the purchase pledge already has Chinese buying of U.S. soybeans near normal levels. Yet, the larger gap is in other farm goods: China pledged to buy $17 billion a year of non-soybean U.S. farm products but bought just $3.9 billion in the first seven months of 2026, less than 40% of the pledged pace. Easing trade tensions would therefore bolster the U.S. soybean industry.

Legislation to end the conflict in Iran faces a similar veto hurdle: a war-powers resolution would need 67 Senate votes to survive a veto, and Democrats with have, at most, 56 come January 2027. If the conflict did end, lower fertilizer and diesel costs would raise farm margins, but the relief would arrive slowly due to lagged supply chains. Supply is expected to take months to normalize after the Strait reopens, partly because tankers carrying oil will be prioritized over fertilizer shipments.

Also, most farmers lock in nitrogen for the next crop over the fall and winter, so a deal reached in the spring would do little for the 2027 season. Prices are also unlikely to fall all the way back to pre-war levels too. Iran has demonstrated its ability to effectively close the Strait, so buyers will pay a risk premium for Gulf supply or turn to more expensive suppliers elsewhere.

Outlook

Farm costs are unlikely to change much under a Democratic Congress. The new majority controls spending, but any bill to end the conflict in Iran or lower tariffs faces veto power by the President; China, not Congress, controls its 13% soybean tariff. The Trump-Xi meeting in China later this month may be the first sign of whether that tariff will change.

Diesel shows how slowly relief is likely to come. The national average fell to $6.13 per gallon on November 9, and the U.S. Energy Information Administration expects it to average $5.37 in the first quarter of 2027. We forecast the U.S. average on-highway diesel price at $5.40 per gallon on March 29, 2027, about 12% below today's level but 40% above the pre-war price of $3.81 per gallon. Winter heating demand competes for the same distillate supply, and repeated disruptions in the Strait keep a risk premium in prices. A lasting ceasefire would pull diesel below $5.00 per gallon sooner; another closure would push it back toward September's $6.53 per gallon peak just when planting begins.

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MINERALS: LITHIUM FALLS TO ONE-YEAR LOW AS THE MARKET PRICES IN 2027

The price of lithium carbonate has decreased by more than 40% since August 2026, despite a forecasted supply deficit in Q4 of 2026. The most active Guangzhou Futures Exchange (GFEX) contract settled at 88,460 yuan per metric ton (/MT) on November 11, down 45% from 159,600/MT on August 28 and far below the May peak above 200,000/MT (see Figure 1). Slower demand growth, returning supply, and a larger inventory cushion have indicated a supply surplus in 2027, placing downward pressure on current prices.



*See Outlook for a qualitative explanation to UCC's forecasted value.

FIGURE 1: BATTERY-GRADE LITHIUM CARBONATE (YUAN PER METRIC TON)

Weak Demand Growth

Demand is the first force. Lithium is a primary component for electric vehicle (EV) batteries. Consequently, EV demand greatly impacts lithium demand. China's retail EV sales are expected to contract in 2026, the European Union plans to cap Chinese EV imports at 350,000 units a year from next year, and China's battery consumption tax starts at 2% in September 2026 and doubles to 4% in September 2027. Decreased EV demand has resulted in decreased lithium demand.

Energy storage is has partly offset this demand decrease, as tenders reached 382.2 GWh in the January–August period, up 40.6%. However, storage growth is expected to slow to 25–30% in 2027. Taken together, with the strongest demand segment unable to cover weak EV demand, projected carbonate prices have fallen.

Returning Supply

For prices to hold, weak demand must be accompanied with decreased supply. However, the May price spike incentivized suppliers to increase lithium supply. Specifically, idled mines became profitable again when prices exceeded $200,000/MT. Mineral Resources reopened Bald Hill after an 18-month suspension, Core Lithium resumed work at Finniss, and Rio Tinto committed $1.4 billion to Argentine projects. Together with decreased demand, increased supply has suppressed prices.

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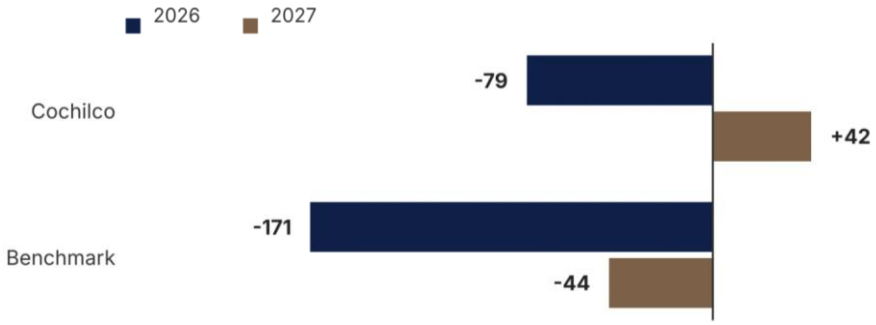
Cochilco expects supply to grow 14.4% in 2027 against 8% for demand, turning a 79,000 MT deficit in 2026 into a 42,000 MT surplus in 2027 (see Figure 2). While Benchmark Mineral Intelligence projects a deficit in 2027, both project a narrowing of the supply deficit.



Note: Negative = Deficit

FIGURE 2: PROJECTED GLOBAL LITHIUM BALANCE (THOUSANDS OF MT)

Larger Inventory Sets Off the Sell-Off

The third force turned this expected surplus into an immediate price drop. Shanghai Metals Market (SMM), a major Chinese price-reporting agency, revised how it estimates Chinese inventories. The new method adds 175,000 MT, roughly double earlier estimates. With more metal already in storage, buyers can draw down stockpiles instead of buying new supply, and SMM now reports that downstream firms are buying only what they need right away. On November 11, 2026, for instance, spot battery-grade carbonate averaged 90,450 yuan/MT, down 800 yuan from the day before.

Prices likely will not fall much further, however, because they are already low for producers. Currently, lithium sells at $13,600/MT. Scotiabank estimates that SQM, a leading Chilean lithium producer, requires a price of $18,000/MT for building new capacity to make financial sense (see Figure 3). When prices sit below what producers need, they delay expansions, so supply growth will slow, preventing further declines in price.



FIGURE 3: LITHIUM CARBONATE (USD PER METRIC TON)

Outlook

We forecast the most active GFEX lithium carbonate contract at about 95,000 yuan/MT on March 31, 2027, 7% above the November 11, 2026, settlement and equal to $14,000/MT. We expect this small

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rebound for two reasons. First, prices are below the level producers need to justify expansion, which discourages new supply (increasing prices). Second, Chinese buyers stockpiled lithium in advance of Lunar New Year, which increased prices in January 2026; we expected a similar trend in early 2027.

In our base case of 95,000 yuan/MT, restocking fades, idled mines return gradually, and storage demand holds, so the market drifts slightly higher from a low base. In a weaker case, the European Union import cap, storage slowdown cut battery orders, inventories stay large, and idled mines restart on schedule. Less demand and more supply push prices down, close to Citi's $12,000/MT target.

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