Discipline returns to the potash market

Last month, one of North America's most influential banks, Toronto Dominion (TD) published a bearish report on the state of the potash market. The report noted that potash prices fell sharply last year and largely because the Russian potash company Uralkali announced it would no longer export through Belarusian-Russian Potash marketing mechanism (BPC) in a joint venture with the Belarusian company Belaruskali. TD's report predicted that international potash prices will remain similar on average than those currently in force, U.S. $ 305 to U.S. $ 320 per ton, over the next two years. The bank believes, however, that prices are unstable, which means they could drop at anytime. The BPC producers (Russian and Belarusian) were responsible for approximately 42% of global potash exports before the breakup of the venture, which has dragged prices to their lowest levels in four years. The expectation was that major buyers such as China and India would wait to see how far prices would fall.

However, in early January, China signed a potash contract with CANPOTEX (including PotashCorp, Mosaic and Agrium) and Uralkali at about USD$ 305 per ton, which has established a floor price. Yet, Uralkali announced yesterday (April 1) that it has signed a potash contract with India at the price of USD$ 322/ton – higher than TD's predictions from just a few weeks ago. Surely, this is lower than the 2013 contract of USD$ 427/ton, but it is higher than expected, considering the 'gloom & doom' potash price predictions in the Street. No doubt, CANPOTEX will match the Uralkali price. One more reason for optimism comes from the fact that Indian potash demand has been weak due to the Indian government's cut of potash subsidies in favor of nitrogen.

There were other signs of optimism or of a gradual return to order in the potash and mineral fertilizer market in general during the course of March. There was in fact a strong recovery in demand for phosphate. Already by the end of February, exports from Morocco's OCP – the world's largest supplier by far – had increased nearly 8 % over the same period of 2013. And the trend would have been even stronger had the port of Jorf Lasfar had not been shut down for 30 days due to bad weather. Granted the exports were not of pure, rock phosphate, rather derivative value added products; however, this reflects a deliberate change in OCP's strategy of prioritizing high value added products rather than rock phosphate. The demand for phosphate and relative price stability also shows that fears of the Ma'aden effect (the Saudi company producing and exporting phosphate) were exaggerated, especially as global demand for fertilizers, according to OCP, ha increased 3% in 2013. In fact, the OCP group has confirmed that it expects 2014 to be even better. OCP wants to capture half of the global demand for phosphate and derivative (DAP/ ammonia) fertilizer.

Meanwhile, Allana Potash Corp. ('Allana', TSX: AAA | OTCQX: ALLRF) announced that ICL, the world's sixth largest potash producer, has already completed the second tranche of its investment in the Company amounting to a total of $ 14.4 million. The placement of the second tranche is part of the strategic alliance of the company with ICL as signed on 12 February 2014. The alliance with ICL will raise Allana to its potential as it is a recognized world leader in the production, sales and research of potash. ICLs project evaluation and technical support, included in the agreement, has also further improved Allana's risk profile and it should increase investors' confidence. After the completion of the placement of the second tranche ICL holds approximately 16.38 % of the non-diluted issued and outstanding ordinary share capital of Allana.

IC Potash ('ICP', TSX: ICP | OTCQX: ICPTF), meanwhile, announced on yesterday that construction at its planned $1 billion sulfate of potash mine in southeastern New Mexico could begin as early as next summer. ICP believes that the final regulatory steps could be concluded in the next few months, leaving it ready to secure financial support and the start of operations. In March, ICP announced that it concluded the final environmental impact statement for the project and the US Environmental Protection Agency (EPA) is expected to deliver its decision shortly. IC Potash filed its NI 43-101 Feasibility Study (FS) for the Ochoa Sulfate of Potash (SOP) Project in 2013 and delivered a very optimistic report of the outlook for sulfate of potash (SOP or K2O). ICP intends to produce high quality SOP while greatly reducing production costs.

Finally, Rio Tinto, one of the world’s largest mining conglomerates is rumored to be interested in entering the Saskatchewan potash game. The Australian newspaper ‘The Australian’ published a story suggesting that Rio Tinto plans to make a bid to take over Western Potash (TSX: WPX), whose investors will be very happy, considering Chinese companies have also expressed interest. Should the rumors be true, the Chinese would not give up its strategic position in the event of a takeover bid by Rio Tinto, making Western Potash investors very happy. Rio Tinto’s potential entry in the potash market also suggests that the sector has reached a more optimistic atmosphere.