

Mosaic setting bullish tone for potash in 2015

✘ Mosaic (NYSE: MOS) is expected to announce significantly higher profit (the presentation will be on February 11), for the fourth quarter than expected thanks to thriving sales of phosphate products. Mosaic's results suggest that the potash majors can experience a bullish start to 2015. Mosaic's performance confirms a bullish trend in mineral fertilizers already noted at the end of 2014 when Mosaic's German competitor, K + S AG, also announced having exceeded its Q4 profit expectations forecast for the fourth quarter thanks to strong autumn/fall business. Meanwhile, Mosaic hinted that phosphate sales and profit margins in phosphate and potash are likely to be higher than the previous forecast with potash sales will be at the upper end of the forecast range. Mosaic sold 3.3 million tons of finished products – far more than the Company had predicted in late October (2.5 to 2.8 million tons). In the potash sector, Mosaic had expected sales of some 2.0 to 2.3 million tons. “The demand for potash and phosphates exceeded our expectations in the fourth quarter,” said CEO Jim Prokopanko. Interestingly, sales were high because many customers have anticipated a strong spring season and rising fertilizer prices and Mosaic expects the strong demand trend to continue throughout 2015.

Mosaic's shares are likely to benefit from the forecast increase establishing a bullish course for the other major mineral fertilizer producers. Mosaic is a member of Canpotex – the marketing organization representing Saskatchewan's three largest potash producers: PotashCorp, Agrium and Mosaic. Last week Canpotex signed a Memorandum of Understanding (MOU) for new three year potash deal with China's Sinofert. Under the terms of the MOU, Canpotex will supply at least 1.9 tons of potash to Sinofert until December of 2017. Pricing will be

negotiated every six months—January to June and July to December, “based on market conditions”, and the current price is USD\$ 305/ton. The price is not as high as hoped, but it is also not as low as feared and the agreement is expected “to encourage future growth in new Canpotex product grades and new market regions in China as it provides exclusivity to Sinofert for Canpotex red standard grade potash only, provided Sinofert exercises the annual minimum purchase requirements.” Canpotex’s rival, Uralkali had tried to secure higher prices from Sinofert (USD\$ 340/ton) last November, only to meet strong resistance from Chinese buyers. Uralkali was trying to compensate for losses deriving from the shutdown of the Solikamsk-2 potash mine, due to a massive sinkhole.

The shutdown has not slowed Uralkali, which announced that it had beaten “its own production target” for 2014 as the company compensated loss of production at Solikamsk by increasing output at its other facilities. Nevertheless, the fact that Canpotex was still able to secure a price of more than USD\$ 300/ton is testament to the resilience of the potash market. Indeed, the price set for the Chinese contract tends to set the tone for the year. The India contract is also an important indicator of the potash market and the Government of India is rumored to be considering lifting import duties for fertilizers, which would make products such as potash, phosphate and urea more affordable to farmers while benefiting Potash Corp, Mosaic and Uralkali among others. One of these others is Germany’s K + S AG whose shares have performed very well since the end of 2014, remaining among the top performers in the DAX. There is a sense, beyond the individual Company results, that the potash sector will see a sustained recovery scenario for 2015; the fertilizer market has already proven to be more solid and encouraging than 2014. The price of corn is especially low (USD\$ 3.50 a bushel – it has been as high as USD\$ 8 according to RBC). Any lower and it will cost more to produce than to sell. The ‘natural’ forces of supply and demand will unleash their magic and restore a modicum of

balance, pushing crop prices higher. There is also the issue of global fertilizer demand continuing to increase. For the past decade the big drivers of potash prices have been China and India.

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