Potash Month-in-Review: Shares remarkably resilient in face of market turbulence

Looking at the performance of Investor Intel's potash companies for November, you can do no more than marvel how strongly they have performed. With all the concerns abounding in the potash sector – and the general equity malaise affecting mining and commodity stocks (while the rest of the market is off to the races) – to lose only an average 2.69% is remarkable.

Another sign of hope is that Russia' "potash war" may soon be over, restoring some stability to the market.

In the past few months, not only has the potash sector been confronted by the dislocations of the Uralkali/Belaruskali bust-up, but this week we've had news of Potash Corp of Saskatchewan slashing its workforce by 18%, while Uralkali has been chipping away at Canpotex's (of which Potash Corp is a member) market share in China. Then came news that the Russian-Belarus stand-off might be close to resolution. That last development might be expected to help stabilise worldwide potash prices – except for another large stone being laid on top of the wall of worry: the prospect now of food prices falling and farmer spending on fertilizer (again) being squeezed.

The figures in the chart below speak for themselves. Two Investor Intel sponsors – EPM Mining Ventures and Magna Resources – actually made gains for the month.

According to the latest Scotiabank commodity report, spot potash prices continued to retreat in November following the Uralkali spat, falling to $340/tonne (FOB Vancouver), compared with $417.50 in late July. Scotiabank says the market is awaiting to see what contracts are signed by China in the first quarter of 2014, with prices possibly below the $300/tonne mark. The good news? Scotiabank says that will likely set a bottom for the market. It also expects the Uralkali/Belaruskali marketing arrangement to resume.

This follows the news that Russian fertiliser producer Uralchem will take a 20% stake in Uralkali. The key point to note here is that Uralchem's billionaire owner, Dmitry Mzepin, hails from the Belarus capital of Minsk. He wouldn't be making this move without the thumbs-up from the Belarus government.

Now this might be expected to end Uralkali's plans to use its low cash costs to undercut most of the other big players, especially in the China market (as had been its intended go-it-alone strategy). But now we read in *The Financial Post* that the lack of potash deliveries to China by Canpotex in October shows Uralkali is squeezing Canadian potash out of this important market. The newspaper quotes CIBC World Markets indicating this shows that "Uralkali's shift in strategy is paying off," according to the analyst, who also noted Uralkali increased its market share in China to 73% in October, up from 26% in May and 36% in June.

The big question now: will Minsk allow a chastened Uralkali to pursue this strategy, or will it want to rein in this undercutting (which, in the long term, would be to the benefit of all the large marketing organisations)?

The other loose cannon is the prices of food commodities. According to today's *The Financial Times*, agricultural food prices are expected to post double digit price falls this year and next, thanks to plentiful supplies of cereals, sugar and vegetable oil, according to Australian investment bank Macquarie. While such a development is good news for political stability, especially in the Middle East and Asia, it will hurt farm incomes. Farmers skimped on fertilizer spending last time food prices dipped and, presumably, have just started replenishing depleted soils; the last thing they need is to have to cut back again on fertilizers.

In the meantime, 1,000 workers in Canada, the U.S. and Trinidad will bear the brunt of the market retreat with Potash Corp slashing that number of jobs.

And here’s the next big question: what will be going through all those corporate minds at BHP Billiton with some big decisions to be made on the Jansen potash project in Saskatchewan?