

# Potash prices show signs of slow recovery but don't expect fertiliser joy soon: Rabobank

Holland's Rabobank expects bearish tones to continue in the  third quarter. There is not much good news in the *Fertiliser Quarterly Q2 2014* except for potash: the bank, which has a worldwide business in agribusiness finance, says that, "after the collapse of potash prices, the first signs of a slow recovery are on the horizon".

That's the one spot of cheerful tidings. As for the U.S. fertiliser market, the bank says the bubble is bursting. There is lower corn acreage, partly offset by higher rice and cotton acreage; and spring demand is ending. Indian demand is the greatest unknown.

Indian potash prices settled at \$322/tonne in the quarter starting April 1, the beginning of the fertiliser year. With the \$105/tonne discount on last year's prices, India is the last big importer to negotiate a hefty 25% price reduction following Uralkali's decision back in July 2013 to buy market share in an over-supplied market.

"Now that Uralkali's change in strategy has finally established a new floor price, suppliers can focus on strategies to increase global prices to increase global prices," the report says. It will be a challenging task as the global market still faces over-supply. Brazil's supply chain is full, and that is ahead of the next next big supply window, starting with sugar cane.

That said, Rabobank believes it is unlikely prices will increase significantly in the short term. Brazil is likely

resist efforts to raise prices to \$360/tonne and China is unlikely to be willing to pay more in the second half of 2014 when India is paying \$322 through to March 2015.

As for phosphate, prices in India are capped at \$480/tonne, potentially driving a rift in prices with the rest of the world. But the bank thinks producers could also struggle to secure volumes in markets other than India. "India is putting the global phosphate fertiliser market in a bearish mood for the months to come," the report notes. Indian di-ammonium phosphate (DAP) prices are capped and a weakening rupee could potentially lower this cap further and make it even less affordable for Indian farmers to buy phosphate fertiliser. And with the prospect of an El Niño occurring, this increases the possibility of a disappointing monsoon, so putting further pressure on farming incomes.

And, to make matters worse, China is expected to step up phosphate and DAP exports, making it difficult for other phosphate producers to secure sales in the rest of Asia. With the domestic application season mostly finished in China, the demand for potash and phosphate fertilisers is weakening. After an export tariff adjustment, Chinese exports of nitrogen and phosphate fertilisers rose substantially – by 140% and 289% respectively, year on year.

And then there's Brazil.

As Rabobank notes, even out season Brazil has a role to play in the global fertiliser arena. Potash producers are keen to secure volumes in that market. Strong increases in coffee prices and favourable soy bean prices supported a 9.9% increased demand for fertilisers in the first quarter. Fertiliser imports will continue to find support from soy bean prices, spurred on depleting stocks in the U.S.

Rabobank expects Brazilian imports of fertilisers to remain strong even though reported stockpiles are already high.

Further increases in potash prices in Brazil potentially to \$360/tonne will see potash producers using the South American agribusiness powerhouse to leverage higher prices in the Southeast Asian market. "Whether this will have a major effect on potash prices worldwide later in the year remains to be seen," the bank notes.