The Crimean crisis should boost potash prices

The current turmoil in the financial markets might be useful for potash investors. There is optimism in Europe over K+S, the German potash company, which will be delivering its quarterly presentation and Analysts are have been optimistic, seeing plenty of upside potential. This is very interesting, considering that last summer, when Belaruskali and Uralkali ended their 'cartel' (BPC) pricing mechanism, K+S had almost been branded a basket case, losing more than 20% of its value.

The potash market remains very sensitive, but in the long term, the outlook is good. The price of just over USD$ 300/ton set by CANPOTEX (Mosaic, Potash Corp and Agrium) when is signed the latest deal with China's Sinofert, is holding and can be considered the new 'floor'. Indeed, potash prices, which are very sensitive to world events may ultimately benefit from the latest geopolitical crisis. The current conflict between Russia and Ukraine in the Crimean peninsula has, in fact, triggered a grain price rally. The futures markets are extremely nervous even if the spot market is still relatively unaffected. This means that, soon, the tension will be carried over to the potash and mineral fertilizer market in general. Oil and natural gas prices have also gone up, which should carry over to commodities in general. When potash prices reached their record in 2007-2008 they followed a trail set by oil; speculation is to blame – or thank – as is the practical consideration that higher oil prices mean higher transport costs.

Now, the escalating conflict, which even if resolved in the short term, will have long term consequences, given that there will be elections in Crimea, elections in Ukraine in the shadow of Russian President Vladimir Putin's considerable ambition. One of the main effects will be that wheat prices will increase, possibly even ‘skyrocket’. The Crimean peninsula, apart from being highly important to Russia for military reasons, is considered the granary or breadbasket of the Black Sea. The local conflict between Russia and Ukraine and the fear of short and midterm violence should boost prices of agricultural commodities and futures on both sides of the Atlantic and on both sides of the Mediterranean. The markets fear that both Black Sea countries (Russia and Ukraine) could reduce their wheat, maize and oilseeds export capacity. So far, the conflict, so sudden and coming on the heels of a public relations success for Russia and Putin (the Sochi Olympics) this has not happened yet, but the tension is high and it could soon spill to agricultural commodities. At present, the first and most significant market effect of the Crimean crisis has been that the Russian ruble has crashed along with its stock market. At the Chicago stock exchange, wheat has already increased 6% as compared to prices from December 2013 level while corn has increased by almost 4%, reaching the highs for the season set in September 2013. Oilseed has also risen sharply.

Even if the row over Crimea subsides and Russia and Ukraine reach some kind of agreement, there is the very real chance that Ukraine could face national bankruptcy. If Ukraine refuses Russian influence outright – meaning if the current or future president does not maintain sufficiently close ties to Moscow (highly unlikely) – it will have to pay back Gazprom debts and see its 30% gas discount vanish. The European Union would have to make up the shortfall and help Ukraine deal with almost USD 40 billion in debt. After the Greece and other bailouts and aid packages, there is little appetite in Bruxelles for more large aid packages. Lacking investment capital and under the shadow of bankruptcy, Ukraine will lack the necessary capital to invest in its agricultural industry. This could further restrict the use of resources, reducing yields for the 2014 harvest. Meanwhile, the long winter in

Canada has created logistic problems for agricultural commodity exporters bad weather in South American soybean cultivation centers has also contributed to shortages that should translate to higher prices. Some junior potash producers such as Allana Potash (TSX: AAA | OTCQX: ALLRF) or IC Potash (TSX: ICP | OTCQX: ICPTF), which have made low capital and operating costs their ‘calling card’ will benefit regardless of where the agricultural commodity markets go. Even, if the potash price floor remains steady at around USD 300, they will still make a healthy margin when they reach production. The current price range, moreover, will discourage new players from entering and saturating the market. Higher prices, meanwhile, will probably further facilitate financing solutions allowing these companies to reach production faster.