Potash is the new safe haven sector to hedge against market volatility

Panic descended on the markets last week. The selloff on Wall Street and other major exchanges was not especially dramatic, but it was sustained as investors reacted – with just a little panic – to signs of a global economic slowdown, possible policy changes at the Fed (i.e. higher interest rates) and a high US Dollar. The lower growth expectations and lackluster US employment statistics suggest that the Fed will not be especially eager to raise interest rates just yet. Nevertheless, the markets will be marked by more turbulence this fall and mining companies and commodity prices will be among those most subjected to its whims. While investors will be struggling to predict and make sense of the markets, there are opportunities in precious metals, which have fallen to yearly lows; uranium had also started to attract some interest in August. Then, there are fertilizers, agricultural sector stocks and potash in particular. These are looking rather good – especially in the mid and long terms.

There is the sensation that fertilizer – potash, phosphate, nitrogen – stocks are 'overweight' and that there is a potash glut. Grain prices have dropped, suggesting that investors will react in a bearish manner, as if guided by 'Pavlovian' conditioning. Nevertheless, fertilizer prices, and potash ones in particular, should hold, since consumption is high and the industry has had plenty of time to absorb and expect the lower grain prices – a trend that may last into the next year. Indeed, the sustained low crop prices may be close to reaching the bottom and any increase will meet a corresponding increase in fertilizer prices. 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. The annual contract negotiations between the potash majors through CANPOTEX and the Russian giant Uralkali over the price for a ton of potash (now at about USD$ 310/ton) set the tone for the rest of the year.

This year, the crops were said to be abundant but low quality, which may determine higher demand for potash, which helps to improve soil and crop quality. PotashCorp advised that it predicts record high potash shipments and suggests this trend will continue into 2015. PotashCorp said that China continue to be a strong buyer as its farmers have set new consumption records, encouraged by the lower prices, setting the best market conditions in a decade. Farmers in North America are no different; they too appreciate a bargain and the lower prices have made potash more popular. The switch to ‘volume’ sales model adopted by Uralkali may have some sense now. The lower prices have made it easier for potash to be used by a far wider number of farmers, many of whom, will have become convinced of its necessity in the future, boosting demand. The fact that agricultural scientists have observed “an increasing nutrient deficiency and declining soil test levels in North America” can only be good news for potash miners.

Predictions of a sustained volume based potash market were strengthened by the fact that Uralkali no interest in restoring the price-cartel. Demand has simply defied and exceeded expectations. In 2013, Uralkali’s decision to break the Belarusian Potash Co sales organization (BPC), de facto ended an informal, global price fixing cartel through which it and CANPOTEX, in North America, controlled two-thirds of the world’s potash market. At the time of the BPC collapse, there were dire predictions about the potash market, yet potash prices have not dropped nearly as dramatically, as some analysts had predicted at the time (InvestorIntel was far more optimistic). The analysts failed to predict improved demand from Brazil and China as expected. They also failed to consider the global hunger for higher crop yields, which has kept the potash price above USD$ 300 per ton. In fact, Brazil, which requires potash for its sugar cane fields agreed recently to a price of USD$ 380/ton with Uralkali. Uralkali has also gained market share in the BRICS (Brazil, Russia, India, China and South Africa) thanks to their response against sanctions adopted by the NATO bloc against Russia in the wake of the crisis in Ukraine.

Demographic development in the long term speaks for the potash sector. Demographic development (according to United Nations estimates, the world's population will grow from 7 billion to almost 10 billion in 2050) coupled with efforts to operate more and more successful land management, mean that the long-term prospects for potash remains excellent.

The African continent presents tremendous market potential for mineral fertilizers and potash in particular. Africa is surely one the most important markets for mineral fertilizers, having the potential to increase the value of its annual agricultural output of $ 280 billion in 2010 to $ 500 billion by 2020 according to the African Development Bank (ADB). Moreover, Africa has the potential to attract 880 billion dollars of investment in agriculture by 2030, which will drive demand for products such as fertilizers, seeds, pesticides and machinery as Africa develops its own production of biofuel, grain refinement and food. Africa still has considerable untapped value in its agricultural industry and it needs regulatory improvements to facilitate more investment, encouraging market-oriented rural employment, technology transfers (of which potash use is a part) and provide the sound basis for sustainability and long-term transformation. The prospects for agricultural growth in Africa are excellent, especially if small farmers are helped to specialize and add value.