Potash prices have stabilized and looking up

The gloomy clouds that cast shadows over the global potash market last summer after the breakup of the Russian/Belarusian BPC cartel have not collided and the stormy forecasts have changed for far more agreeable forecasts. The conflict between Russian and Belarusian potash producers threatened to flood the market with quantity, undoing the oil like cartel pricing system that has worked so effectively in the past decade. The reasons for the disintegration of BPC turned out to be more complex, extending far beyond potash into bilateral Russo-Belarusian relations. Close ties between the new president of Ukraine, Petro Poroshenko, and Belarus's President Alexander Lukashenko, have not discouraged talks to revive the BPC cartel. In April, Lukashenko is believed to have held very "constructive" talks with new Uralkali co-owner Dmitry Mazepin about bringing back the Belarus Potash Company, or BPC, joint venture. Such a development would certainly help to boost potash prices to at least 2012 levels. The main obstacles are no longer political or diplomatic (the BPC breakup was a full scale diplomatic incident); simply, Uralkali wants to ensure that its shareholders get the best possible deal while moving the new BPC headquarters from Minsk in Belarus to Switzerland.

The potential for sanctions to be applied to Russian potash, meanwhile, remains even if so far, its importance to the European Union suggests this resource will be kept out of geopolitics for the time being. The EU issued a list of critical raw materials last week: phosphate (though more generally meaning mineral fertilizers) was one of the six. Uralkali, therefore, will experience only minor if any impact at all from Western sanctions against Russia. Its main focus is on the so called BRICS nations (Brazil, Russia, China, India, South Africa) where potash demand has been growing fastest.

Recent pricing statistics have only confirmed the bullish climate for potash. The average per ton FOB price per ton for potash at the Vancouver port, which was still 459 dollars in 2012 dropped to 379 dollars average last year largely due to the BPC related conflict. The predicted market flood did not occur, even if volume surplus exists and the average for 2014 is expected to hover around USD$ 300/ton (though mostly on the higher end of that plateau considering that both the CANPOTEX and former BPC partners signed contracts with China and India at above USD$ 300. The potash market is expected to remain in substantial surplus over the next five years according to Australian bank Macquarie, which predicts Canadian producers will increase production from the 15.88 million tons of 2013 to 17.42 tons in 2014. Russia and Belarus should also increase their supply in 2014.

Canada, Russia and Belarus hold three of them 90 % of global potash reserves. Canada alone accounts for 46% of proved reserves and probable reserves of 33% also according to Macquarie. The lower prices, however, have discouraged major projects, which will benefit the current majors and any junior potash company close to reaching production stage such as IC Potash (TSX: ICP | OTCQX: ICPTF) or Allana Potash (TSX: AAA | OTCQX: ALLRF). The three majors Potash Corp, Uralkali and Belaruskali, will simply expand existing mines. Chinese demand is expected to rise in the next few years, rapidly absorbing the predicted surplus.

Agriculture is the driving force behind potash demand and its consumption is linked to the needs of agriculture and varies with changes in agricultural prices. Potash helps increase crop yields, improve plant quality, reduce water needs and accelerate their growth. Lower agricultural commodity prices tend to reduce fertilizer demand; not surprisingly, demand or use of potash increases when its price drops. This period of ‘cheap potash’ will serve to get more farmers around the world using potash; the results will then convince them to continue using potash even after prices inevitably rise again. China, Brazil and the United States (on average using some 10 million tons each) use more than half of the 62 million tons of potash that Macquarie expects will be consumed in 2018. While, it makes the biggest ‘splash’ in determining price, China is only the third largest potash importer (6.1 Mt in 2014, 6.9 Mt in 2018).

The main importer is Brazil, while the main consumer is the United States, which imports as well as produces potash. Potash demand is rising fastest in such other major Asian countries as India, Indonesia and Malaysia – the latter two being driven by the large potash amounts needed to stimulate the cultivation of palms for palm oil (used in a number of applications and as a biofuel). Finally, the potash scenario in the near future may be summarized as one that will be marked by a slower growth of supply and improving demand, which will lead to a price recovery in the next few years.