Mosaic setting bullish tone for potash in 2015

Mosaic (NYSE: MOS) is expected to announce significantly higher profit (the presentation will be on February 11), for the fourth quarter than expected thanks to thriving sales of phosphate products. Mosaic's results suggest that the potash majors can experience a bullish start to 2015. Mosaic's performance confirms a bullish trend in mineral fertilizers already noted at the end of 2014 when Mosaic's German competitor, K + S AG, also announced having exceeded its Q4 profit expectations forecast for the fourth quarter thanks to strong autumn/fall business. Meanwhile, Mosaic hinted that phosphate sales and profit margins in phosphate and potash are likely to be higher than the previous forecast with potash sales will be at the upper end of the forecast range. Mosaic sold 3.3 million tons of finished products – far more than the Company had predicted in late October (2.5 to 2.8 million tons). In the potash sector, Mosaic had expected sales of some 2.0 to 2.3 million tons. "The demand for potash and phosphates exceeded our expectations in the fourth quarter," said CEO Jim Prokopanko. Interestingly, sales were high because many customers have anticipated a strong spring season and rising fertilizer prices and Mosaic expects the strong demand trend to continue throughout 2015.

Mosaic's shares are likely to benefit from the forecast increase establishing a bullish course for the other major mineral fertilizer producers. Mosaic is a member of Canpotex – the marketing organization representing Saskatchewan's three largest potash producers: PotashCorp, Agrium and Mosaic. Last week Canpotex signed a Memorandum of Understanding (MOU) for new three year potash deal with China's Sinofert. Under the terms of the MOU, Canpotex will supply at least 1.9 tons of potash to Sinofert until December of 2017. Pricing will be negotiated every six months—January to June and July to December, “based on market conditions”, and the current price is USD$ 305/ton. The price is not as high as hoped, but it is also not as low as feared and the agreement is expected “to encourage future growth in new Canpotex product grades and new market regions in China as it provides exclusivity to Sinofert for Canpotex red standard grade potash only, provided Sinofert exercises the annual minimum purchase requirements.” Canpotex’s rival, Uralkali had tried to secure higher prices from Sinofert (USD$ 340/ton) last November, only to meet strong resistance from Chinese buyers. Uralkali was trying to compensate for losses deriving from the shutdown of the Solikamsk-2 potash mine, due to a massive sinkhole.

The shutdown has not slowed Uralkali, which announced that it had beaten “its own production target” for 2014 as the company compensated loss of production at Solikamsk by increasing output at its other facilities. Nevertheless, the fact that Canpotex was still able to secure a price of more than USD$ 300/ton is testament to the resilience of the potash market. Indeed, the price set for the Chinese contract tends to set the tone for the year. The India contract is also an important indicator of the potash market and the Government of India is rumored to be considering lifting import duties for fertilizers, which would make products such as potash, phosphate and urea more affordable to farmers while benefiting Potash Corp, Mosaic and Uralkali among others. One of these others is Germany’s K + S AG whose shares have performed very well since the end of 2014, remaining among the top performers in the DAX. There is a sense, beyond the individual Company results, that the potash sector will see a sustained recovery scenario for 2015; the fertilizer market has already proven to be more solid and encouraging than 2014. 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.

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Potash investors should focus more on global population than market trends

There are few commodities that have been as volatile and as ripe with contradictory reports as potash over the past year. The problem is that potash investors have been spoiled and perhaps too greedy as its price rose to USD$ 900/ton from averages of USD$ 100/ton merely ten years ago only to settle at above USD$ 400/ton in the past year. The highs were reached as a result of significant commodity speculation in 2007/2008 and fast rising oil prices, which prompted a veritable food crisis in many parts of the world. The potash high prices were simply unsustainable; indeed, they became unaffordable in many of the areas of the world where potash demand has been rising fastest. The lower price is actually a good thing.

The North American and Russian potash ‘cartels’ have been adding their own pressure on potash pricing to discourage new players such as BHP Billiton from coming in to disrupt their market. Nevertheless, the most important result of the potash ‘rollercoaster’ of the past decade is that the potash industry itself has become more important. The potash market itself has also expanded and many areas of the world where the use of potash and mineral fertilizer was virtually inexistent now represent some of the best long term opportunities.

Potash has risen to such a prominent position as a commodity that its fortunes can prompt market rallies and market drops in key stock markets such as the Toronto Stock Exchange (TSX). This is precisely what happened over the past week as BNN blamed the drop in shares of PotashCorp (TSX:POT, NYSE:POT) on July 17 for the overall drop in the TSX as “investors raised new concern over supply and demand globally for potash.” The PotashCorp drop was not even prompted by its own good or bad results. PotashCorp suffered a reflected negative sentiment as its rival (but fellow CANPOTEX member) Mosaic Co announced lower than expected earnings. This fickleness has worked both ways. Last January, higher than expected earnings from Agrium Inc prompted a major rally at the TSX.

Investors who have been following potash may rightly feel confused. Indeed, the monthly – if not weekly – escapades of potash prices should be ignored. The focus should be on the wider phenomenon of population growth, as reminded by World Population Day last July 11. That occasion served to remind us that the current world population of 7.2 billion could add another one billion people by 2025 and reach 9.6 billion by 2050. Given that evolution that not work that fast, there is a very good chances that such dramatic population increases will require equally dramatic food production increases. Indeed, rapid population growth and increasing wealth in emerging markets has been fueling consumer demand worldwide. Potash investors should take advantage of the major trends in the global population development.

Rapid population growth will take place in emerging markets mainly where, says the World Bank, the middle class will almost triple with an income of at least U.S. $ 10 per day between 2000 and 2030. A consumer revolution has already started in the so called emerging markets, one that is no longer conceivable in Western industrialized societies. Agricultural commodity such as potash companies are in the frontline of his new demand trend and in the next few years they can expect tremendous growth and earnings opportunities, from which patient investors will benefit. The consumer revolution in China is not only desirable; it has become a matter of political necessity to promote as rising incomes and awareness levels are prompting people to put pressure on the government to curb corruption, toughen environmental standards and increase salaries. But it's not just China. By 2030, the World Bank estimates, global demand for food will increase 50%.

The increase is not just from population growth; it is a result of the middle class phenomenon, which has already been altering eating habits to diets requiring a more fertilizer intensive agriculture. Evidently, this offers great opportunities for fertilizer producers such as Potash Corp, Uralkali, Mosaic and the juniors that are emerging to meet specialized niche markets based on geographic advantages such as Allana Potash (TSX: AAA | OTCQX: ALLRF) in Ethiopia and with easy access to address African demand and India or IC Potash (TSX: ICP |OTCQX: ICPTF) with its low cost Sulfate of Potash product, while companies such as Potash Minerals (ASX: POK) or Magna Resources (CNSX: MNA) operating in Utah will be able to address gaps in demand the still enormous US market. The main advice to potash investors is to be patient.

Morocco's shift in Phosphate Strategy opens Opportunity

for D’Arianne Resources

D’Arianne Resources Management (‘Arianne’, **TSX.V: DAN**) is one of the few phosphate mining companies operating in Canada, or North America for that matter. Arianne is developing the Lac-a-Paul phosphorous titanium property, aiming to produce high grade apatite concentrate at 39% P2O5. This level of concentration is very high and higher than Moroccan phosphate which is about 30%. Apatite is a source of phosphate and has many uses, including as a gemstone, but it is mainly processed to produce fertilizer as it is rich in phosphorus. In North America, apatite derived fertilizers are used to promote the growth of a wide variety of crops are used to supplement the nutrition of many agricultural crops by providing a valuable source of phosphate.

Apart from the high mineralization grades at the Lac-a-Paul property, Arianne could earn a significant space within the context of the North American phosphate market. While potash is abundant, North America needs to import most of the phosphate it needs. Agrium’s phosphate mine in Kapuskasing, Saskatchewan is scheduled to close while production in Florida, one of the few known phosphate sources in North America, is limited by environmental concerns. Most of the world’s phosphate is produced in North Africa (Morocco, Tunisia) and the Middle East (Jordan, Syria). Such is demand for phosphate that there are projects to develop underwater phosphate deposits off the coasts of Namibia and New Zealand. Morocco, as the world’s largest producer of phosphate, has a dominating position on the industry; therefore, its response to world demand offers valuable insights into current market conditions for this commodity.

Morocco is planning to boost production, also in response to much lower supplies from Tunisia due a longstanding labor problem. Yet, high-grade phosphate ore sources are declining, a problem that producers have so far confronted by beneficiating (washing, flotation or calcining) lower grade ores. Morocco is increasingly moving toward higher end processed phosphate fertilizer products (monoammonium phosphate-MAP and diammonium phosphate – DAP) through massive investments in beneficiation, which will use up much more of its rock phosphate. This suggests that Morocco will cut back exports of phosphate rock, notably to North America where companies like Mosaic uses it to produce its own line of DAP. Mosaic (NYSE: MOS), for instance imports lower grades of rock phosphate from Morocco for this purpose.

Morocco's shift of phosphate focus should be idea for Arianne, leaving it a great opportunity to compensate for the projected shortfall. Populations in developing economies such as China and India are also demanding more varied and richer diets, requiring increased food production and, consequently, more fertilizer. India is the world's largest phosphate importer while China has indigenous resources, deemed strategic by the government and therefore not – officially – exported. Arianne is therefore a very interesting prospect as it offers a high grade product without some of the risks and costs – transportation – linked to phosphate sourced in its areas where it is more typically mined.

Last summer, Arianne started working on a Bankable Feasibility Study (BFS) and its completion is a top priority this year as is divestment. Arianne expanded the drilling zone, increasing the drill holes from 48 (November 2011) to 123 in late 2012. The results of the new definition drilling will be available in the first months of this year and which will be used for the BFS. Arianne said it would divest all non-phosphate properties (including Heva, La Dauversière, Black Dog, Chico, Dulain, and Terres Rares) during 2013. The Company expects to complete the divestment process in order to become "a leading Canadian Phosphate producer" as it moves from exploration to actual mine development. Arianne Resource's flagship 25,000 hectares project at Lac a Paul is located about 200 km. north from Saguenay. The property has convenient access along the Chute-des-Passes logging road also used by Rio Tinto and Alcan. The government of Quebec will help the project, providing assistance for additional infrastructure, including a railway that will enable the Company to transport phosphate concentrate directly from the mine to the port of Saguenay to facilitate international export.

Arianne's field data has validated the projections, which indicates that Lac-a-Paul has even greater production capacity than expected as a result of drilling in the Lise, Nicole, La Traverse and Lucie zones. Before, the new exploration program, measured and indicated resources at the property amounted to a combined 347.7 million tons at an average 6.50% P2O5 and 8.43% TiO2 and 114.3 million tons of 5.46% P2O5 and 6.19% TiO2 inferred resources. The new findings at similar grades suggest, according to Arianne, a potential for 750 million tons.