Phosphate prices are preparing for a significant increase in the long term

Phosphorus is perhaps the essential element in mineral fertilizers such as phosphate. Those who are strong proponents of manmade climate change theories will find little comfort in the fact that last April the IPCC (Intergovernmental Panel on Climate Change) has issued a warning that phosphorus risks literal extinction at the end of this century. Phosphorous is the crucial ingredient in fertilizers and for food production. It would not be unfair to suggest that the depletion of phosphorous would be even more tragic than the depletion of oil resources for the survival of mankind. Regardless of the credibility of the IPCC report, the warning has certainly highlighted the value of phosphate. Even if the phosphate market should endure some short term bearish price fluctuations, the long term prospects are decidedly bullish, considering the proliferation of warnings about the risk that the world will soon be running out of it.

There is an additional bullish factor. One of the main risks associated with phosphate is geopolitical. Phosphate reserves are located in only a few countries such as Morocco, China, Jordan, Tunisia or Syria. Surely, the USA also produces phosphate but, most of it addresses domestic demand. Nevertheless, three quarters of global reserves are in Morocco, especially in the Western Sahara. Within a few decades, Morocco – and perhaps Jordan, the second largest producer – could be enjoying a virtual phosphate monopoly if more resources are not developed.

In the long term there is only a bullish case for phosphate. Global demand for phosphate rock can only increase in order to meet the needs of a growing population and more diverse diets in rapidly growing countries, richer in meat. There is also an increasing use of biofuels, which will drive a more industrial aspect of agricultural demand. However, and this is the ‘good news’ for investors, phosphate is not infinite and it has no alternative. In the very short term phosphate prices will remain stable and not very exciting. In October 2013, rock phosphate cost USD$ 120/ton. In March 2014, the price was USD$ 108/ton and the low point in the interim was in December 2013 at USD$ 102/ton. Prices for commonly used phosphate derivates such as urea or DAP have hovered in the USD$ 300-400 range. Phosphate is usually processed to deliver higher quality products as well as urea. The next few months should lead to a slight phosphate price increase. Nevertheless, in Australia, farmers have been forced to delay planting because of a lack of phosphate fertilizers. The fact that Australia, which produces 80% of its fertilizer needs, finds itself in a situation of shortage, illustrates the phosphate market’s potential. In one year, the price of DAP, phosphate of ammonia – this is the most commonly used phosphate derivative – increased by 50% to over $ 400 per ton since the start of 2013.

The tension Ukraine and Russia has pushed prices for wheat and seeds higher, but US demand is not expected to increase due to the poor weather conditions in winter 2014. Dry weather in ssouthern Russia and Kazakhstan, large wheat producers, has also contributed to higher prices. Corn planting in the US could be less bearish than the USDA has predicted, while lower prices have helped raise demand for corn feed. However, in 2013, there was a phosphate shortage because global fertilizer prices, phosphate in particular, were low. Export demand rose at the same time creating delivery bottlenecks, which will likely help sustain higher prices in some regions of the world. In the longer term, a report by Transparency Market Research entitled “Biofertilizers (Nitrogen Fixing, Phosphate Solubilizing and Others) Market for Seed Treatment and Soil Treatment Applications – Global Industry Analysis, Size, Share, Growth, Trends and Forecast, 2013 – 2019”, demand for fertilizers such as phosphate will be increasing from an average of USD$ 440.0 million in 2012 to USD$ 1,028.7 million in 2019.

Africa will be one of the main factors contributing to higher world phosphate demand. Africa has 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). It also highlights that Africa has the potential to attract 880 billion dollars of investment in agriculture by 2030, generating high demand for products such as fertilizers, seeds, pesticides and machinery.

Despite recent financial and food crises, the prospects for African agriculture’s long-term growth are brilliant, especially if small farmers are helped to develop and specialize, adding value and reaching wider markets. The rise in food prices that peaked in 2008 and their continued volatility provide a unique opportunity for Africa to increase their investments in agriculture in order to ensure food security and stability. The main phosphate market trendsetter is Morocco’s OCP, which is by far the largest producer. Interest in phosphate is also brining foreign investment back to Tunisia where the local state controlled Celamin has managed to attract Polo Resources (AIM and BSX: POL) has taken a 12.7% stake in the company to secure a phosphate resource to its agri-sector portfolio. Indeed, phosphate is valuable by itself in rock form and is also used in the manufacturing process of chemical fertilizers, essential components in the production of food.