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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Sinkhole swallows Uralkali's profits and boosts potash rivals

Russian fertilizer giant Uralkali (LI: URKA), just a year after shaking the potash market by terminating its strategic pricing alliance (BPC) with the Belarusian potash concern Belaruskali announced that it has been struggling with a temporary closure of a major mine, Solikamsk-2, located near Perm. Should the problem turn out to be a long term or even permanent failure there is the risk that the Russian potash producer will incur significant losses. Of course, this could benefit the competition and cause a significant price hike in the price of the popular mineral fertilizer. The mine affected by the shutdown is of considerable importance for Uralkali, covering a fifth of the company's capacity. On Tuesday, production at Solikamsk was stopped after high levels of brine were discovered. Water dissolves the potash salts (potassium-laden salts) damaging a mine's structure and causing sinkholes. This is not unusual for Uralkali, but this time the scale of the problem has been more severe than usual. In 2006, Uralkali suffered a similar incident in the same region and the closure lasted a very long time causing a 5% drop in production (but not as great a financial loss, given that potash prices were typically below USD$ 200/ton then).

The market's reaction was immediate: Potash Corp (NYSE: POT) gained 6% percent in New York, an intraday jump not seen since 2012 while its CANPOTEX 'cartel' partners Mosaic (NYSE: MOS) and Agrium (TSX: AGU) enjoyed similar increases of 4.4 and 4.1 respectively. Indeed, Uralkali did not venture to suggest how long it would need to fix the problem and this is also good news for the smaller potash producers such as Germany's K+S Group and even for potash juniors such as IC Potash ("ICP', TSX: ICP | OTCQX: ICPTF) and Allana Potash (TSX: AAA | OTCQX: ALLRF). These juniors are among the nearest to production stage of all the new potash companies. The breakup of the BPC potash cartel that was announced on July 30, 2013, resulting from OAO Uralkali's decision to 'go it alone' had shaken the potash sector.

Investors and sector executives alike feared a collapse of the sector with prices falling below USD$ 200/ton. Nevertheless, the market dynamics triggered by Uralkali's move may have benefited the overall potash sector by lowering prices in the short term so as to increase them in the long term. In this sense the 25% average drop in potash shares in reaction to the Uralkali bombshell, helped make potash more affordable for those many potential customers who have stayed away because of prohibitive economics. The chance to sample the goods and see the agricultural benefits will have generated more demand while emphasizing the value of 'project economics'. Now, the favorable economics for the emerging juniors and production capacity of Uralkali's international competitors, will raise potash's value as an investment commodity. Should Uralkali fail to control the flow of brine, it could lose up to 30% of its net profit in the coming year. Meanwhile, the prospect of a tighter supply on the world market is expected to help fertilizer manufacturers to charge higher prices in the forthcoming negotiations with India and China, which usually take place between December and January.

In July 2013, Uralkali adopted a new strategy of pushing production levels higher to bring down prices of potash and conquer new markets, sacrificing margins in the process. That decision led to a stock market collapse of major industry players, who were accustomed to controlling and adjusting production to support prices. China had already been slated to pay 10% more for the 2015 contract to secure its supply of potash. Uralkali's drop will surely play in favor of CANPOTEX and that price increase will surely be greater than 10%. Increasing tensions between Russia and the West will also raise potash prices. After Canada, Russia is the world's largest producer of potash. The country also provides 7% and 8% of the supply of fertilizer phosphorus and nitrogen. Brazil has been gradually increasing potash imports used especially to grow soybeans, used for food and fuel. Demand has increased steadily from 2012 to 2014 while areas used to plant soybeans are expected to grow 4%. Already, fertilizer orders for the first half of 2014 gained 7% over 2013, and a corresponding increase is expected in the second half of 2014.

InvestorIntel decrypts the market trend of some key commodities: agbusiness, uranium and gold

Agbusiness:

It is not only the growing world population's hunger that is driving the prices of wheat, corn, soybeans and other agricultural products and the OECD expects for years with rising agricultural prices. The main role affecting prices is played by soy, sugar, corn and wheat. Modern food production would not be sustainable without the use of mineral derived fertilizers from potash to phosphate, given the quantities that are needed. Potash helps the soil retain water, while making crops more flavorful and resistant to disease. It is estimated that more than a third of the world's current food production would not be possible; as the world population expands, therefore, potash will become even more important in order to match food production with demand. Economic growth in China and India and a resulting change in the diet toward more meat (meaning more animal feed) and carbohydrates have led to a sharp increase in potash. The fertilizer producer K+S is recovering from the slump in the market in 2013 faster than expected.

Potash prices have recovered faster than the most optimistic expectations (and InvestorIntel was decidedly in the bullish camp). PotashCorp, (NYSE: POT) one of the world's largest potash producers expects worldwide demand for the mineral to remain at least as high in 2015 as in the previous years, while K+S (DE: SDF) in Germany, which almost collapsed in the wake of shockwaves of Russia's Uralkali's pullout from the BPC consortium with Belarusian state concern Belaruskaly in July 2013, has announced a 16% increase in operating profit last week with shares rising over 6% in Frankfurt trading. Farmers' demand for potash is strong.

Agricultural commodities include a wide variety of inter-related products ranging from the food we eat to the products needed to facilitate their production from fertilizers such as potash, nitrogen and phosphate and even land. Indeed, the growing global contest between urban sprawl and agricultural land risks lowering rather than raising living standards for different populations, causing damage to habitats and entire ecosystems. Yet, the world's population continues to grow and land productivity has become a crucial issue, given the ever increasing demand for food. Changing dietary habits in developing countries, where people are consuming more meat, and the rising popularity of bio-fuels and distribution of biofuels require more land devoted to agriculture and far greater efficiency to maximize yields and the quality of harvests. Biofuel production has started to impinge on the production of food for the poor: 40% of the corn produced in the US, 50% of the sugar beet grown in Brazil and 80% of the sunflower produced in Europe are used by the biofuels sector.

Food security is the key to our future. In 2050, there will be nine billion people inhabiting the earth and the problem of how to ensure safe and healthy food to a growing world population is one of the greatest challenges for the coming years. While this problem has generated a worldwide debate over the search for solutions from how to deal with basic food needs, fighting hunger even as the public and private sectors must to work in harmony to ensure better economic, social and environmental agricultural development models, there are tremendous opportunities. Agricultural products have become ever more expensive and there are excellent opportunities for investors. Milk is more expensive – now everyone knows how much agricultural commodities are on the rise.

Uranium & Nuclear Energy

Japan’s decision to restart two nuclear reactors has woken up uranium prices from their slumber. On November 6, uranium enjoyed a 4.5% increase in spot prices, the largest daily increase since the Fukushima disaster of 2011, which had condemned all Japanese plants to be shut down, adding a setback to the global nuclear industry. Kagoshima Prefecture signaled a green light to restart two reactors at Sendai while Russia has agreed to build two new reactors in Bushehr, Iran. And Australia is preparing to sell nuclear fuel to India. For several days, sales of uranium concentrate have increased on the spot market and there has been a rush to buy, especially in the USA, fueled by an effort to avoid delays in resupply lest prices rise further. Fears of a global uranium surplus have proven premature and the price per pound of uranium concentrate is not likely to relapse. It is now worth USD$ 39, 50% more than before the summer on the spot market, USD$ 45 on the market long term. Uranium mining companies have benefited from the spot price increases from Canada to Australia and even in France where Areva stock has also improved after a reporting season of problems driven by bad results this year. Uranium producers decreased their production by 11% while there has been a lower availability of recycled uranium fuel supply.

Gold, Base & Precious Metals

Global consumption of gold has declined slightly in the third quarter 2014, with a decline of 2%, which nevertheless masks regional disparities, according to the recently issue of the World Gold Council (WGC) quarterly report. Notably, while demand has dropped in China – many believe that personal purchases of gold ingots and jewelry has sharply declined due to the zeal of fiscal authorities controlling illicit earnings and corruption – it has increased in India. Together, India and China are the major gold consumers in the world. India's demand increase is the product of a strong appetite for jewelry (+ 60%) despite of the introduction of restrictive measures on the import of gold in the country. There is also an optimism in India that has been missing from the main economic outlook of the past few years; in India, people think that economic growth will improve, which has encouraged to spend a little more."

Chinese demand is a still acceptable and it remains key pillar of global demand for gold, and it seems that India and China switch their position as world's largest gold consumers from time to time. It was in 2014 that China became the world's largest consumer of gold from, overtaking India only to relinquish the rank now. Central banks, for their part remained net buyers of gold for the 15th consecutive quarter.

Russia has continued to boost its reserves during the last quarter by 55 tons, reaching a total of close to 1,150 tons at the end of September. Moreover, there are signs of a bullish – or at least a least bearish one – inversion of the recent down trend for gold and even silver. Last Friday both precious metals proved to be resilient in the face of another increase in the US Dollar, suggesting a longer term rebound, which could see gold quickly resuming a price in the order of USD$ 1,200/oz. or higher as early as this week.

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.

Rumored merger between Yara International and CF Industries could shake up potash market

Norwegian fertilizer producer Yara International announced, this week, that it has entered talks with US-based CF Industries (an ammonia and nitrogen production giant) for a possible merger. Should the two companies reach a deal, it would be a merger of equals, giving birth to an industrial giant with a market value exceeding USD$ 27 billion.

The talks are at a very early stage and their outcome is still uncertain but the Oslo Stock Exchange reacted favorably to the possible merger as Yara’s shares (Oslo: YAR) rose by almost 9% on Tuesday. The compatibility between CF and Yara is not immediately apparent; however, the two giants have complementary markets. Yara is a truly global company with interests from nitrogen (world's no.1 producer) to potash and phosphate based fertilizers. CF (NYSE: CF) is the world's no.2 ammonia producer and also has phosphate interests but it is largely focused on the North American market. The two merger candidates are very familiar with each other quite apart from their ranking as the largest and second largest nitrate fertilizer producers. In 2010 they fought a bidding war over US-based Terra Industries. That war ended with Yara throwing the towel as CF purchased and fully absorbed Terra for over USD$ 4.1 billion. CF Industries also has access to cheap natural gas, which is very important in the production of nitrogen fertilizers.

It may be too early to speculate about 'synergies between the two giants, other than their complementary market geography; nevertheless, there is no doubt the resulting fertilizer giant would have unprecedented distribution and product portfolio. Such will be its power that the combined Company could face regulatory scrutiny in many markets. Certainly, Yara's rationale is to gain a stronger foothold in the North American fertilizer markets. For its part, CF Industries, headquartered in Chicago, has a market value of $ 12.7 billion and has its main production focus in the US Midwest, Canada, UK and Trinidad & Tobago. A CF/Yara merger would result in a Company with the market and production power to challenge Potash Corp of Saskatchewan, whose value is estimated at USD$ 28.9 billion. The merger, therefore, would cause a major shakeup of the fertilizer industry.

Yara, which is some 30% Norwegian government owned, would get production areas in the United States, where operating costs are low. CF Industries would, in turn, get access to Yara's presence in over 150 countries. The risk for PotashCorp and its partners in the CANPOTEX pricing mechanism (Mosaic, Agrium, PotashCorp) is that the new giant would cause a major disruption with its production power. More competition could lower prices in the medium to long term, and lead to layoffs while farmers would enjoy inevitably lower fertilizer prices. In some ways, the union of Yara and PotashCorp would achieve something akin to the combined company that would have risen from BHP Billiton's hostile takeover bid for PotashCorp in 2010 (blocked by the Canadian government).

The timing of the Yara/CF merger talks (said to be in their early stage) come as nitrogen fertilizer prices have stabilized at yearly high levels. Despite the downward trend in grain markets, basic nitrogen-specific markets remain bullish. Thus, the supply of ammonia remains complicated for fertilizer producers, which points to higher production costs. Many urea production facilities have closed, which has kept the international price high. In this context, the ammonium nitrate producers will benefit at the expense of the more potash concentrated producers. Global potash prices, while stabilized compared to last year, have tended to stagnate in the context whereby the evolution of the former Uralkali and Belaruskali cartel remains under discussion. As for phosphate, while international prices and markets are relatively stable, they are subject to the weakness of the euro against the rising US Dollar, increasing the import price, potentially lowering demand.

Western agricultural and potash sectors suffers more

from anti-Russia sanctions than Russia itself

Russia has delivered a textbook response to the growing list of sanctions that the West and NATO countries have adopted, with more or less conviction, over its inevitable interventions in the Ukrainian civil war. Russia has banned food imports from several Western countries including Italy, Germany and Canada. It has also banned Western investment projects in the Russian agro-food sector just as Russian food tastes and consumption habits have been expanding to include a wide variety of products. From the Western perspective that Russia should modernize politically, the sanctions will have adverse effects, delaying that very process of modernization, forcing a resumption of cultural and political insularity. Russia will put planned projects on hold or cancel them outright, hurting Western companies in the process.

Western companies – especially German and Italian – have been providing the modern technologies and know-how to modernize the Russian agriculture and processing industry. Germany alone has invested over a billion Euros in Russian agribusiness, which have enabled Russia to vastly improve □□plant production, resuming its role as a primary exporter of wheat along with the USA, the EU and Argentina. The increase in the production of wheat and other crops has also allowed for improvements in poultry and pig production, which has raised demand for such minerals as potash and phosphate. Meanwhile, as late as 2013, several European small and medium enterprises in the agricultural sector had asked their EU representatives to significantly expand their corresponding commitments in Russia, facilitating ties further. The crisis and the Western (especially from the EU) promise to include Ukraine in NATO or even the EU have contributed greatly to the crisis. Not surprisingly, trade relations and problem-resolution mechanisms must be in place to build trust in trading partnerships and now both are in short supply. It will be difficult, but the EU must pursue a more diplomatic line with Russia in order to avoid completely cutting political level discussions and opportunities to continue working in favor of Russia’s agricultural and food industry modernization, which benefit western companies directly.

The Russian government has chosen to ban imports of several food products from the EU and the USA not only as a means of political pressure, but also to highlight their positive impact on the development of Russian agriculture and food industry. It is therefore in the mutual interest of all powers concerned that the Ukraine conflict does not escalate further.

The effects of the embargo imposed by Russia have already been felt. Entire containers of EU food products have been blocked and sent ‘back to sender’, while Russian importers are advised have been terminated several contracts for the shipment of fruit and vegetables. The list of banned products covers the entire range of diets and tastes including beef, pork, chicken, fish, seafood, milk and dairy products, fruits and vegetables from the EU, USA, Norway, Australia and Canada, with the exception of alcohol and children’s products. It is a sharp brake on the increasing demand for EU products on the dinner tables of all countries that made up the former Soviet empire that had begun to appreciate such gastronomic delights as Parmigiano Reggiano and prosciutto, not to mention all manner of oranges, grapes and legumes. In the first quarter of 2014, Russian imports of EU food products had actually risen in the first quarter of 2014. Countries such as Italy, which are relying on exports to lead the path out of the economic crisis, consider agriculture as a very important economic sector. It is estimated that Italy alone will lose over 200 million Euros in lost agri-business with Russia alone. Now we are facing a worrying escalation of the conflict with a trade war, which confirms the strategic importance of food especially during periods of economic recession. Russian leaders are master chess players and they have not chosen to target food imports casually; they are very aware that agriculture is a primary pillar of growth for the European Union at a time of economic stagnation. Indeed, worldwide agricultural exports from Italy alone grew by 5 percent in 2013, reaching a record high value of 34 billion Euros, even as other sectors suffered.

As for Canada, while Prime Minister Harper engages in smug tirades against Russia, the sanctions and growing trade ‘Cold War’ may have consequences for the potash sector. Russia is part of the block of BRICS (Brazil, Russia, India, China and South Africa) countries, all of which have high potash and phosphate demand driven by their respective agriculture and food sectors. As western borders close in response to decisions in Bruxelles, Ottawa or Washington doors open to Russia’s East and South. In potash terms, the world’s largest potash producer Uralkali expects to be able to implement price increases by as much as 10% in the 2015 supply contracts with China. Uralkali is considered the clock for the fertilizer industry, which also includes Canada’s Potash Corp of course.

The People’s Republic of China is the world’s largest consumer of potash and now pays Uralkali USD$ 305/ton. Technically, this should be good news for Potash Corp and its CANPOTEX partners (Mosaic, Agrium), but China may well decide to increase its share of supply from Russia in solidarity over Western sanctions. In turn, Russia will replace Western imports with meat and dairy products from Brazil, Argentina, Ecuador, Chile and Uruguay, which are more than willing to step up to the opportunity. China has also indicated that it can increase the supply of fruits and vegetables to Russia. Uralkali also has close ties to India and if it should see it advantageous, it could slash potash prices below contract rates, revamping the ‘quantity’ model by increasing production and undercutting CANPOTEX. Moreover, Russia may decide to trade in local currency when dealing with other BRICS members, further damaging the potash market.

New PotashCorp CEO shows confidence in 'price over volume' strategy

On July 1, Jochen Tilk formally replaced outgoing Bill Doyle as the CEO of PotashCorp. Doyle headed the Saskatchewan based PotashCorp for 15 years, adopting a rather bombastic style, which made potash a household word in North America. Doyle was also a proponent of the 'price over volume' market strategy that helped raise potash prices to unprecedented heights in 2008-2009, which have remained on the high side despite a notable drop from their USD 900/ton peak. This decision may soon prove its validity because there have been several indications that a re-establishment of the Russian/Belarusian potash pricing cartel BPC (Uralkali and Belaruskali) has turned from possible to probable.

It was just about a year ago that the BPC cartel burst, threatening the price-over-volume strategy it had pursued along with its North American equivalent, CANPOTEX (including PotashCorp, Agrium, Mosaic) changing the potash price mechanism. Not surprisingly, Uralkali, the World's largest potash company, produced 3.1 million tons of potassium chloride in the second quarter of this year. This was a significant increase over the same period of 2013 with 2.4 million tons, potentially unsettling the market. However, while the BPC breakup was a dramatic development that forced the share prices of most potash companies down in 2013, the situation has calmed down since then. After an uncertain phase in the months leading up to the Chinese and Indian contracts being settled at above USD$ 305/ton, which showed that the potash markets had regained traction, given initial fears that potash would drop below USD$ 200/ton.

There are two main reasons that suggest a revival of BPC. The first is that PotashCorp's new CEO, Tilk, has decided to uphold the strategy of adapting production to demand, which proved to be successful. This suggests that in the medium term – if not even the short term – Tilk expects Belaruskali and Uralkali to revive the BPC. Since last August, Uralkali as much volume as possible, sending prices into a tailspin. Until last July, BPC and the North American counterpart CANPOTEX controlled about 70 percent of the market and ensured that prices always remained at a high level. Nevertheless, last June, the Warburg Research moved the German K+S Potash, one of the companies that suffered the biggest market losses because of the BPC collapse, from 'hold' to 'buy'. Apart from the fact that general agricultural conditions have favored higher potash prices in the past few months, there is more optimism that Uralkali and Belaruskali will resume their pricing mechanism.

This would certainly help potash prices move above USD$ 400 per ton, as they were in the weeks preceding BPC's breakup. Moreover, reports that the Russian state-owned energy giant Rosneftegaz intended to take over Uralkali's shares from the previous major shareholder, Suleiman Kerimov. The would-be offer would price Uralkali, the world's largest potash producer, at USD$ 20 billion. The fact that Rosneftgaz, as Russian government controlled company, wanted to take over Kerimov's shares hints to the influence of Russian President Vladimir Putin, who has been seeking a fast solution in potash dispute between Russians and Belarusians. The replacement of Uralkali's main shareholder had raised hopes and expectations that Uralkali and Belkaruskali will resume talks to revive the

BPC cartel. Uralkali’s CEO, Vladislav Baumgartner, was arrested in Belarus last August 26, accused of embezzling funds from the BPC cartel. The Belarusian government stated, “Uralkali and Belaruskali could resume their alliance if Uralkali had new ownership”. Last November, Uralkali’s biggest shareholder, billionaire Suleiman Kerimov, sold a 21% stake in Uralkali to billionaire Mikhail Prokhorov as a first attempt to ease tensions with Belarus.