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.

.

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.

Potash Weekly Review: Potash on the Leading Edge of Agricultural Demand

Seeds and fertilizers continue to offer one of the more favorable spaces of the market as they can rely on the rapid growth of the world population. Agriculture is also a vast sector that begins with the farmer and ends at the dining room table. Farmers play a big role in determining what is grown based on demand and that factor alone determines the amount and extent of the supply chain that helps to achieve his/her goals and consumer needs. The gap between farmer and consumer is filled with everything from land, weather, technology and, most definitely, with seeds and fertilizers.

All these elements, with the exception of the climate, co-exist in a kind of balance and it is as responsive as a well tuned sports car when it comes to market forces – after all agriculture is the origin of all business practices, including the invention of writing in Mesopotamia and Egypt for accounting purposes. Last year, and continuing in 2013, US farmers experienced an intense drought that managed to drive cereal prices higher as well as soybeans and other seeds. Higher prices encourage farmers to increase their crop production, leading to more need for potash. Demographics also plays a role; China, India and many emerging markets are witnessing unprecedented urbanization and this changes agricultural patterns, less land becomes available and existing farms must become more productive to address changing food consumption patterns, including more meat and wheat products, which presents an additional acreage and productivity burden.

A ton of beef can require about seven tons of grain needed for feed. While, China had even grown to export soybeans and wheat, in 2013 it recorded a trade deficit having had to increase imports of such commodities, reflecting a typical pattern brought on by its combination of economic growth and social transformation, which is still only in its early stages. This pattern shift translates to very good news for fertilizer exporters. While China signed its 2013 potash contract, last December, at USD 400/ton, all indications are that the next one will be higher. China and India can muster higher market powers during their negotiations, but smaller countries, markets, inevitably have to pay more. Brazil is shaping up to be just such a market. The long term prospects for potash plays are clearly favorable and for those juniors shall be able to maintain the CAPEX costs within their low projected estimates, there will be plenty of opportunities to take advantage of all the peripheral (as well as the larger) markets in Asia, South America and Africa as food demand grows there.

There are three types of fertilizer typically used by farmers and potash is the rarest of these, which lends itself to the semi-monopolistic practices adopted by Canpotex or Soyuzkali, GMBH the new Russian-Belarusian potash trading Company announced on February 18. Whereas potash suffered, or was at least mixed, in 2012; in 2013, the potash markets are expected to perform better with more consumption and more exports projected. As noted often in ProEdgeWire’s coverage of the potash market, Africa represents the new frontier for potash. Last week, Allana Potash (TSX: AAA; OTCQX: ALLRF) announced the reaching of a memorandum of understanding (MOU) with the Ethiopian Agricultural Transformation Agency (“ATA”) to develop the use of potash in Ethiopian agriculture.

The study could serve as a model for the rest of Africa (not by chance the African Union and several UN development agencies have headquarters in Addis Ababa) promoting the use of potash; Typically, Ethiopian and African farmers have relied more on Di-Ammonium Phosphate (Dap) and Urea (nitrogen) fertilizers in cases where alternatives to the more common but far less efficient biological fertilizers are used. The weekly share index for ProEdgeWire potash sponsor saw little change with some of the beneficiaries from the week ending on February 8 giving up some of their gains to record a drop of 4.73%; one possible explanation is that corn prices dropped (though they still remain at high levels due to the effects of the US Drought) are lower than soybeans for the time being. U3O8 Corp (TSX: UWE; OTCQX: UWEFF) was the biggest gainer in the sector. owing to the announcement of a very favorable Feasibility Study for its Berlin Uranium project in Colombia, which is expected to produce phosphate as a bi-product.