

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.