



4 Big Reasons the Potash Market Could Soon Turn the Corner

Description

“Uralkali’s Board of Directors decided to change the Company’s market posture and move from a rigid ‘price-over-volume’ strategy to a more flexible approach whereby the Company continues to focus on shareholder value maximization, prioritizing volumes or prices depending on the market situation,” said Russia’s Uralkali, the world’s largest potash producer by output, during its last earnings release.

Every investor in **PotashCorp** (TSX:POT, NYSE:POT), **Agrium** (TSX:AGU, NYSE:AGU), and **Mosaic** ([NYSE: MOS](#)) should read the lines carefully, because the key to where the potash market, and these companies, is headed could be hidden within.

The story so far

Uralkali’s decision to break away from its cartel with Belaruskali last year [sent potash stocks plummeting](#) as a cloud of uncertainty shrouded the market. The two companies, together with Canpotex — the marketing group comprising of PotashCorp, Mosaic, and Agrium — largely controlled the supply, and hence prices, of potash nutrient until Uralkali decided to go its own way and pursue a volume-over-price strategy. Soon after, potash prices crashed, and so did investors’ hopes.

But recent industry developments could indicate that the worst may be over for potash companies.

A major breakthrough

After announcing its break up with the BPC mid-last year, Uralkali predicted global potash prices would slip 25% to \$300 within months. Last week, Uralkali contracted to supply 700,000 tonnes of potash to China for \$305 per metric tonne through June 2014. The deal is significant for one big reason – it could indicate the bottoming of potash prices, because Uralkali had also mentioned earlier that “a potash-price decline below \$300 a ton is not likely.”

But you may wonder why potash prices can’t fall further if Uralkali continues to dump greater amounts of potash into the market even as demand remains soft. The answer could lie in Uralkali’s words stated above. While the company insisted on boosting production volumes earlier, it seems to have flexed its stance now. At least that’s what these words suggest: *“the Company continues to focus on shareholder value maximization, prioritizing volumes or prices depending on the market situation.”*

Is this the bottoming?

So Uralkali has kept its options open: whether to sell more at lower prices, or restrict supply and command higher prices from customers. With major consumer, China willing to pay \$305 per tonne of potash, it's unlikely that Uralkali will now do anything that could push prices below the \$300 mark. In other words, potash nutrient may have found a floor price.

In fact, right after Uralkali's contract, Canpotex also received an order from China for supply of 700,000 tonnes through the first half of this year, confirming a bounce back in the global demand for the nutrient.

More to come

I won't be surprised if India, another major potash importer, follows suit with a contract. India usually waits for China to sign contracts before signing its own. More notably, [according to](#) one of the leading potash companies, India Potash, the nation usually pays \$15 to \$20 more per tonne of potash than China. So despite the nation's existing contract with Canpotex lasting through March this year, the low prices could encourage it to renew the contract, which bodes well for Canpotex members.

Positive signs

Aside from the probable potash floor price, there are other factors that suggest that the potash market could already be on its way to recovery. [According to](#) the latest market data released by PotashCorp, North American producers' December potash inventory fell 27,000 tonnes sequentially, and is also lower year over year. At the same time, industry production in the month of December declined 17% sequentially. Meanwhile, potash exports from North American producers in December were up a substantial 27% and 17%, sequentially and year over year, respectively.

These factors clearly indicate a tightening demand-supply situation, which bodes well for PotashCorp, Agrium, and Mosaic. In fact, by suspending operations at some of its mines to reduce production, PotashCorp is playing a key role in balancing demand and supply in the industry, and should continue to do so.

The Foolish bottom line

The recent developments in the potash market look positive, and investors can remain hopeful that the downturn may not last long. Investors will get an even better idea about where the market is headed when PotashCorp reports its fourth quarter and full-year numbers this Thursday. Make sure you do not miss the big event, since it should give you valuable insight into the future of the potash companies, and their stocks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

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