



## Will Potash Demand Ever Catch Up to Supply?

### Description

**Potash Corporation of Saskatchewan** (TSX:POT)(NYSE:POT) CEO Bill Doyle has said that investing in his company is “a marathon, not a sprint”. But now it looks like the run may be even longer.

The global potash market already has excess supply, putting downward pressure on prices. And it looks set to get worse. Australian mining giant **BHP Billiton** still hasn't given final approval for its massive Jansen project in Saskatchewan, but more recently two smaller miners are looking to develop potash production of their own.

### Allana Potash

**Allana Potash** (TSX:AAA) is currently developing a 1 million tonne potash mine in Ethiopia. It is scheduled to open in late 2016 – if that does end up happening, it will be the first major greenfield mine in seven years.

What stands out about the project is its \$642 million budget, which is very cheap for a mine its size. By comparison, a one million tonne greenfield mine in Saskatchewan would probably cost north of \$2 billion. But the low price tag of Allana's mine makes the project feasible even at relatively low potash prices.

### Verde Potash

**Verde Potash** ([TSX:NPK](#)) is also looking to develop a low-cost mine, this one a 300,000 tonne per year operation in Brazil. The process is still in its early stages – a pre-feasibility study is set to be released in late March.

The project's location is a big advantage. Brazil is one of the world's biggest potash markets, and the project is located right in the epicentre of the country's agriculture industry. And if the project is developed successfully, a second phase could eventually increase production ten-fold.

### A worrying sign?

Neither of these mines are big enough to make a significant dent in the potash market – total potash demand was 53 million tonnes in 2013. And both of these projects are many years away from reaching production, even if they don't run into delays.

But these are just two examples of a trend that should worry PotashCorp and its shareholders. Even with prices depressed, rival firms seem to have no problem bringing on new production. And as new supply is brought on, it will make for a more competitive marketplace, reducing the pricing power of market leaders like PotashCorp.

### **Foolish bottom line**

In the near term, the potash industry may get a boost from Uralkali and Belaruskali restoring its marketing agreement. But longer term, it looks like there will be more than enough supply to meet demand, even if prices are uncooperative.

Mr. Doyle is right about at least one thing: investing in PotashCorp is certainly a marathon, and the finish line is as far away as ever.

### **CATEGORY**

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