



Why Potash Corp./Saskatchewan Inc. Is the Only Commodity Stock You Should Own

Description

Very recently, analysts at Morgan Stanley made news by stating in a report that this particular oil crash could be worse than the one in 1986, when oil took over four years to recover 80% of its value from the bottom.

Unfortunately, weak prices are not limited to oil. Coal prices are currently at a 10-year low, and the same is true for nearly every energy, precious metal, and non-precious metal product. More concerning than the current prices, however, is the long-term picture—demand is drying up as countries move away from coal-powered power generation to less carbon-intensive sources, and slower global growth and a movement towards renewables will put a lid on oil.

What should investors do? The answer is to look to food. A growing population combined with less arable land will make potash—the fertilizer best suited to increase crop yields—a key commodity of the future. There is no better way to play it than with **Potash Corp./Saskatchewan Inc.** (TSX:POT)(NYSE:POT).

Why the future looks grim for coal and oil

From the late 1990s to only a few years ago, it seemed investors could not go wrong when investing in commodities. Oil prices climbed over 1,000% from the late 1990s to 2008, coal prices appreciated by over 600%, and with this growth came a rapid expansion of supply. This period was known as the commodity “super-cycle” and it was driven largely by the 15% annual GDP growth that China had for 10 years between 2002 and 2012.

Unfortunately, things are changing. China is seeing its growth decline, with the OECD estimating that China will see 5% GDP growth by 2020 and 3.5% growth by 2030. Slowing demand from China takes place against a backdrop of slowing overall global growth, as global GDP growth is expected to normalize around 3% annually as opposed to the nearly 5% that occurred during the 2000s as both advanced and emerging economies grew.

While slowing growth is a concern for coal and oil, even more concerning is demand for these products is being replaced by renewable or less carbon-intensive sources over time. This is already happening with coal—recent policy changes in the U.S. have prompted a mass closure of coal-fired plants to be replaced with natural gas, and China is following suit due to excessive pollution.

Oil will see similar demand declines not only due to environmental concerns, but also due to the cost effectiveness of alternatives. Canada recently committed to end fossil fuel use by 2100, and oil will see its market share decline by 12% by 2035, whereas renewables will triple their share.

The long-term picture for potash is bright

Fortunately, things look much better for potash. While potash prices have recently lagged due to oversupply and similar demand concerns seen by other commodities, the long-term fundamentals are strong.

Firstly, global population is expected to increase by one billion over the next 12 years, and grow by three billion by 2050. This growth will be centred on developed countries, and will require an estimated doubling of food production. Not only will developed countries be increasing in population, but they will also see their caloric intake rise, as well as a shift in what they eat, with more meat as well as fruit and vegetable calories being consumed. Since one kilogram of beef requires seven kilograms of grain to produce, grain production will need to increase dramatically.

This is where potash comes in. Since new arable land is limited, the answer is to increase yields from current land. Potash is key to this process, and currently both China and India underuse potash. If these countries simply applied potash at the same rate as the U.S. does today, potash demand would increase by 36%, and this is not factoring in the previously mentioned demand growth.

Potash Corp./Saskatchewan Inc. is the best way to play this trend. Currently, Potash Corp. not only controls 20% of global market share (making it the world largest producer), but it also controls half of new global supply coming online. With some of the lowest production costs in the world, and reserves lasting up to 85 years, Potash Corp. is well suited to respond to, and profit from, growing demand.

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