



Why Did Billionaire Ray Dalio Sell His Entire Potash Corp./Saskatchewan Inc. Stake?

Description

Ray Dalio is Founder of Bridgewater Associates—currently the world's largest hedge fund and one of the best performing over time. It is for this reason that when Dalio adds or subtracts a position from his portfolio, investors often take notice.

In the fourth quarter of 2014 Dalio made news by purchasing 601,000 shares in **Potash Corp./Saskatchewan Inc.** (TSX:POT)(NYSE:POT) worth \$21 million, and making it one of Bridgewater Associates largest positions. In Q1 2015 Dalio proceeded to double his position in Potash Corp. to 1.2 million shares, worth nearly \$40 million and propelling Potash Corp. to Dalio's second-largest holding.

Then in Q2 2015 and shortly after buying, Dalio sold his entire 1.2 million shares of Potash Corp. Interestingly, he also sold his entire 200,000 share stake in fertilizer competitor **Agrium Inc.**

The fact that Dalio sold most of his agriculture positions may mean he has become bearish on the entire industry. Let's evaluate potential reasons to be bearish on fertilizer producers and what actions to take.

There is a large oversupply of key crop nutrients

Much of the reason to be bearish on fertilizer at this point comes from the supply side. Traditionally, the global potash industry functioned as an oligopoly of sorts, with a small handful of producers controlling prices.

Potash Corp., with control of over 20% of global potash supply, set prices along with Agrium and **Mosaic Company** through the Canpotex marketing cartel. Along with the joint marketing cartel between Russian producer Uralkali (the world's second-largest producer) and Belarusian Belaruskali (the world's fourth-largest producer), these two cartels effectively controlled over 70% of the world's market for potash.

Unfortunately, this changed in 2013 when Uralkali and Belaruskali broke up their marketing cartel and

decided to pursue a volume-over-price strategy, with both producers producing near capacity to gain market share. This sent potash prices plummeting over \$100 per tonne. This is continuing to put pressure on prices, with Belaruskali recently selling product into the U.S. market for the first time at a discount to competitors, and agreed to sell its potash to China earlier in the year at a price much lower than Canpotex was aiming for.

In addition to increased production and competition from current producers, there is also plenty of new potash supply on the way. German producer K + S Ag will be coming online in 2016 with its Legacy potash project in Saskatchewan, which is expected to produce two million tonnes in 2016 moving up to four million tonnes by 2035.

In addition, Uralkali is expanding production by 30% over the next five years; Eurochem will also be adding new projects; and BHP is expected to move forward with its Jansen project, which could add eight million tonnes.

There are also some headwinds for demand

While supply is by far the main issue, there are also issues from the demand side. Dalio has recently become very bearish on China.

China and India are by far the world's largest buyers of potash, and therefore the recent weakness in China does not bode well for potash demand. The weakening yuan and strengthening U.S. dollar does not help in this regard. Since fertilizers are priced in U.S. dollars, the weak Chinese currency means that buyers in China will have considerably less purchasing power, which could translate into weaker demand.

Weak crop prices are also acting as a headwind—corn, wheat, and soybean prices have fallen over the year, which reduces fertilizer demand.

What should you do?

While Potash Corp. is certainly facing headwinds over the short term, investors with a long-term focus should continue to hold. As the population grows, especially in developed nations, demand for food will increase, and Potash Corp., being the world's largest potash producer, will benefit.

In the meantime, Potash Corp. has a strong, sustainable dividend that can pay you to wait for better conditions.

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