



## How to Profit From Goldman Sachs's Top Commodity Recommendation

### Description

While commodities as a whole may be down 33% over the past 12 months, a recent report by **Goldman Sachs** ([NYSE:GS](#)) suggests the end isn't near—the report stated that overall commodities have another 10% to fall in 2016.

Fortunately for investors, the news isn't all bad. The report stated that crops as a whole will be the best-performing commodity (falling only 0.5% over the next 12 months), with corn prices expected to be one of the top performing crops. Morgan Stanley and French bank Societe Generale are also bullish on corn.

For Canadian investors, one of the smartest ways to profit from long-term demand for corn is by buying farm retailer and fertilizer producer **Agrium Inc.** (TSX:AGU)(NYSE:AGU).

### Why the forecast for corn prices is bullish

Corn prices have plunged from \$6.89 per bushel in 2012 to around \$3.60 per bushel today thanks to all-time record U.S. corn production in 2013 and 2015. Ideal growing conditions meant that farmers were able to get large yields of corn per acre.

It looks like the supply picture is improving now. U.S. corn production for 2015 is expected to be 5% lower than 2014 due to record amounts of moisture in the Corn Belt region, combined with some droughts in other areas. Demand for the year in the U.S. is expected to remain the same, which means prices are set to rise.

The picture for global demand seems to be strong as well. Corn demand has grown by 1.3 billion bushels a year for the past three years thanks to increases in global meat consumption, which means that corn demand for animal feed has had to grow significantly.

If this level of demand were to continue, agricultural company **Monsanto** estimates that the U.S. would need to add 60 million acres of corn production. Even if demand growth falls to only 500 million bushels per year, yields would need to increase and land area would need to expand, and this means better prices and more production.

Better corn prices and higher corn production means increased profits for Agrium.

### **How Agrium benefits from improved corn markets**

Over half of Agrium's business is its agricultural retail segment, and this segment sells crop nutrients, crop-protection products, and seeds to farmers. The majority of this business is based in the U.S., and being the largest agricultural retailer, Agrium is very exposed to farmer spending.

As corn prices and volumes increase, farmers have more money to spend, and Agrium will see this reflected in earnings growth. Higher demand means that farmers will need to rely more on crop nutrients to boost yields, and will need to buy more seeds (and higher-valued seeds).

In addition, Agrium produces nitrogen fertilizer (which is its second-largest source of revenue), which is mainly used on corn. More corn production means more nitrogen fertilizer demand.

In addition, the recent weakness in crop prices has meant that many farmers have switched from corn to soybeans (which require less crop nutrients and are therefore cheaper). This reduces demand for nitrogen, and as corn prices improve, farmers would return to corn production, which will in turn mean more nitrogen use.

The good news about investing in Agrium is that thanks to its diversified business and the stability of its main segments, Agrium shares have done well, even in the weak crop environment, and should do even better when the market improves.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:GS (Goldman Sachs)

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### **Author**

amancini

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