



3 Commodities to Be Bullish on—And How to Play Them

Description

It has been a rough year for commodities and commodity stocks as a whole—the Scotiabank Commodity Price Index is down 33% during the last year alone and is currently sitting at a decade low.

The future does not look bright either. Permanently slowing growth out of China (the engine of the previous commodities boom) and persistent oversupply of key commodities should keep a lid on prices. For Canadian investors, this is a problem—30-40% of the TSX is comprised of commodity stocks in some regard.

Fortunately, not all commodities have a grim outlook. Certain trends, such as a growing global population and growing income per person, mean that demand for things like food and electricity will grow. This is why the long-term outlook for corn, potash, and natural gas are favourable. Here's how to profit from them.

Corn demand and prices will grow over time

U.S. investment bank **Goldman Sachs** recently looked at commodities as a whole and predicted that they would fall about 10% next year. The best-performing commodity in the entire group was crops, which Goldman estimates will only fall by about 0.5% next year. While short-term estimates are encouraging, the long-term picture is most favourable.

Global population is set to grow from 7.3 billion today to 8.7 billion by 2035, and not only with this population require more food, but increasing wealth in emerging economies will see growth in meat consumed (about a 10% increase between now and 2022). Corn is a key feedstock, and demand should grow as meat consumption and population increases.

Agrium Inc. (TSX:AGU)(NYSE:AGU) is set to benefit from this trend. The U.S. is the world's top corn producer, and about half of Agrium's business comes from its agricultural retail segment, which has stores all over the U.S. and sells crop protection, seeds, and nutrients to farmers.

Improved corn prices and growing production means that farmers will spend more at Agrium's stores. In addition, Agrium is also a wholesale producer of nitrogen fertilizer, which is used mainly on corn.

Potash will benefit from the same trends

A growing global population, increased calories per person, and more meat consumption will all require more crop production. Crop production can be increased either by increasing acres or by increasing the yield from those acres.

With arable land being limited, increasing the yield is the best option, and fertilizers like potash are key in accomplishing this. Emerging markets such as China currently underuse potash relative to other fertilizers, which reduces the yields they can achieve, and this represents a further growth opportunity for potash.

While many investors are aware that potash prices have plunged by about 40% since 2011, it is important to note that much of this weakness is supply driven (largely due to a partnership break up between two large Eastern European producers). In fact, there is estimated to be total global potash demand of about 58-60 million tonnes this year, which would be the second highest on record.

Global potash production is controlled by a small handful of producers, the majority of which are very disciplined about supply, meaning they cut production to keep prices in check. The recent low prices have prompted cuts from producers like **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT), and **Mosaic**.

Potash Corp. is currently the world's largest potash producer as well as one of the world's lowest-cost producers. About half of the new global capacity that is coming online is produced Potash Corp., so this is an excellent way to play the long-term growth in potash demand.

Natural gas will become the fastest-growing fossil fuel

From now until 2035, natural gas is poised to become the fastest-growing fossil fuel, growing at a faster rate than both coal and oil combined (about 1.9% annually). In fact, about one-third of all new energy demand will be satisfied by natural gas.

This is because natural gas is not only abundant and affordable, but it is significantly cleaner than oil or coal and is more energy efficient. Canadian investors have an opportunity to take part in this demand growth by purchasing **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) shares.

TransCanada has extensive natural gas infrastructure and currently is contracted to build pipelines that will serve new liquid natural gas facilities being built on the coast of British Columbia to export supply to the growing Asian market.

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Date

2025/08/04

Date Created

2015/11/21

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