



## Potash Corporation of Saskatchewan Inc.: Has This Stock Found a Bottom?

### Description

**Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) is catching a bit of a tailwind in recent sessions, and investors are wondering if the painful slide in the stock is finally over.

Let's take a look at the current market situation to see if this is the right time to buy.

### Potash prices

Potash prices have been falling for the better part of five years. The fertilizer currently trades around US\$240 per tonne in the spot market, about half the price Potash Corp. was getting back in 2011.

A number of factors are responsible for the prolonged pain.

The sell-off picked up speed back in 2013 when big producers in Russia and Belarus decided to end a long-standing marketing partnership. The ugly breakup has resulted in the two former cronies battling it out for market share, and that has put pressure on prices.

In fact, potash prices dropped 25% in the wake of the announcement.

Pundits have speculated the two companies will eventually sort out their differences and renew the cartel, but that doesn't appear to be in the cards anytime soon.

### China and India factor

Each year China and India set the tone for the global potash market as the wholesale prices they negotiate with suppliers tend to act as benchmarks for the rest of the industry. China normally has a deal in place by February and India usually signs on the dotted line by April.

This year, both countries are yet to sign a deal, and that is adding to the instability in the market.

### Demand woes

India in particular is looking at lower purchases in 2016 as the country battles with drought conditions

in key farming regions.

On the other side of the planet, weak crop prices and volatile currency moves are hurting demand. North American buyers are sitting on their hands as bumper harvests in recent years have put pressure on market prices. At the same time, countries like Brazil are struggling with currency drops that have outpaced the plunge in potash prices.

When you add it all up, global potash sales for 2016 are now expected to be 58-60 million tonnes compared to the 61 million tonnes delivered in 2015.

### **Production outlook**

Potash Corp. has closed mines in New Brunswick and reduced output at two of its facilities in Saskatchewan in response to the weak market conditions. This will result in a total production cut of about 400,000 tonnes.

On the global scale, new mines are under construction and expected to add more supply in the coming years, so there is little short-term relief in sight.

### **Should you buy?**

At the moment, I don't see a reason to rush in and buy the stock. The Q1 2016 results could be ugly and market conditions might continue to deteriorate through the year, so more downside is possible in the coming months.

If you take a long-term view of the market, the picture looks better. Global farmers will struggle to meet rising food demand in the coming decades and that should bode well for fertilizer companies. Potash Corp. is a low-cost producer and has completed most of the investments needed to compete for the long term. As a result, the company is positioned well to benefit when the market recovers.

The near-term prognosis isn't great, but contrarian investors with a long-term view should probably keep the stock on their radar. The darkest days often present the best buying opportunities.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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### **Date**

2025/08/05

### **Date Created**

2016/04/20

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