



Potash Corporation of Saskatchewan Inc.: Is a Rally in the Works?

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) is battling some difficult market conditions, and investors want to know if the worst is finally over for the stock.

Let's take a look at the current situation to see if the fertilizer giant deserves to be in your portfolio.

The perfect storm

An array of negative events has hit the potash market in recent years.

In 2013 two of the world's largest producers, Russia's Uralkali and Belarus's Belaruskali, decided to end their marketing agreement. The split hit the potash sector hard, knocking 25% off the spot price in the global market.

The two giants still haven't managed to kiss and make up, and the feud continues to put pressure on the industry, but there could be a reunion on the way.

In June, Belarus president Alexander Lukashenko said he is open to a renewed co-operation between the two companies. That would certainly help put a floor under potash prices considering Uralkali is the world's largest potash producer and Belaruskali is ranked number two.

How bad has the slump been?

Potash Corp. reported a Q2 2016 average realized sale price of US\$244 per tonne, which is down from US\$334 per tonne last year.

Climate woes have also hurt the industry.

India has battled extended drought conditions in the past couple of years, and that has led to reduced potash imports. The country even delayed signing its 2016 potash supply contracts until just recently.

Bumper crops in the U.S. in recent years drove down crop prices, and that led to reduced crop nutrient orders from American farmers. Lower potash prices are expected to spur renewed buying in the back

half of the year as farmers begin to open their wallets again.

Currency fluctuations have played a role, too.

Brazil is a significant buyer of potash, but the plunge in the value of its currency against the U.S. dollar since 2011 has hurt the country's ability to buy crop nutrients. The situation is finally improving with the Brazilian real gaining 24% against the greenback so far in 2016.

Supply outlook

Some producers are shelving new projects and reducing output in an effort to adjust to the weak market conditions. Potash Corp. actually closed facilities in eastern Canada and has restricted production in Saskatchewan.

Other companies are still evaluating their growth plans or simply pushing ahead.

For example, **BHP Billiton** recently said it might "mothball" its Jansen project in Saskatchewan, even after sinking \$2.6 billion into the site to build the initial mine shafts. If completed, Jansen would be one of the world's largest potash mines with annual production of eight million tonnes.

K+S Potash, on the other hand, is moving ahead with its new mine in Saskatchewan and should hit output of two million tonnes per year by the end of 2017.

Decisions on major greenfield projects will determine the speed of a price recovery. If Jansen gets the green light, the market could remain under pressure for longer than expected.

Should you buy Potash Corp.?

The market appears to be improving, but the supply situation remains a wildcard. As such, there probably isn't a rush to back up the truck just yet.

If you like the sector and follow a contrarian investing strategy, consider nibbling on the dips.

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2. Metals and Mining Stocks

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