



Is the Potash Industry Set for a Rebound?

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) is a company I have followed for some time and is one which has remained relatively flat for the past few months, despite a number of catalysts I believe should have driven its stock price higher, sooner. That said, I indicated it was one of my favourite [long-term rebound plays](#) for investors to go long on, and I still feel this way, despite pervasive softness in the potash industry overall.

Potash Corp., like its industry rivals, is beholden to the underlying commodity price of potash.

Consolidation having little impact on prices

The impending merger between Potash Corp. and **Agrium Inc.** (TSX:AGU)(NYSE:AGU) is one I have pointed to as a catalyst I believe will drive Potash Corp. higher over the long term. The reasons behind my thesis are rooted in the expectation that Potash Corp. will continue to become a more powerful voice in the fragmented oligarchy of companies worldwide that produce potash.

Potash Corp., Agrium, and **Mosaic Co.** ([NYSE:MOS](#)) make up the major North American players in potash, with a few other notable global players taking significant pieces as well. These three North American producers make up a consortium of producers called Canpotex (short for Canadian Potash Exporters), which produces approximately 35% of the world's potash supply.

Until 2013, another consortium, made up of Russian company Uralkali and Belarussian company Belaruskali, produced another 35% of global potash production, essentially putting approximately 70% of the world's production in the hands of five companies.

While the Uralkali and Belaruskali partnership did not work out, the price of potash has been given a bump of late on news that the two companies may indeed start talks about reducing production to support higher global potash prices moving forward.

Should these companies agree to trim production and agree to some sort of fixed level of production and stick to it, the global price for potash will largely be in the hands of four companies (once the Potash Corp. merger goes through) with Potash Corp. having the loudest voice in the room to push

potash prices whichever way best suits the business.

This bullish thesis relies on the idea that production will be trimmed and prices will rise slowly over time; however, it remains to be seen how these global players wish to play their hands. The situation for potash cartels is reminiscent of the current OPEC situation in which the cartel is losing its power in driving global oil prices to countries not participating in the oil production cuts (namely, the U.S.), driving prices lower. If the Russian and Belarussian companies indeed deviate from what Canpotex wants to see, the industry will likely become much more of a competitive market rather than an oligarchy. The outcome remains to be seen.

Bottom line

The potash industry is one for long-term investors, and one which I would advise short-term traders to stay away from. I have been advocating a rebound for the industry for some time, as I believe potash to be one of the critical counter-cyclical commodities which is needed in good economic times as well as recessionary or deflationary environments. Buying a company such as Potash Corp. will require patience, but for those ready to wait it out and nibble away on any weakness moving forward, the current market price for potash stocks remains a good entry point at today's depressed levels.

Stay Foolish, my friends.

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1. Energy Stocks
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1. Editor's Choice

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1. NYSE:MOS (The Mosaic Company)

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