



This Is Why Potash Corporation of Saskatchewan Inc. Is up 6% So Far in July

Description

Shares in **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) are up an impressive 6% so far this month amid a stronger Canadian dollar and a long-anticipated and broad rebound in commodity prices.

Yet, the price of potash, the company's primary source of revenues, is only up 1.8% since the start of May.

What gives?

A quick refresher

Potash is an input into commercialized crop fertilizer which is applied to soil, following the year's harvest. As part of the fertilizer compound, potash acts to replenish the soil's nutrients in order to yield a better harvest (more crops) the following season.

Potash is typically applied to fields that grow corn, soybeans, wheat, and potatoes, among many others.

Why is this important?

Farmers will typically place their orders for fertilizer in the fall after that year's harvest, although the fertilizer will not be applied until the following spring.

Yet fertilizer isn't necessarily a "required expense" for farmers.

While ideally, farmers will replenish the soil each year, this isn't absolutely necessary, and some farmers will only apply fertilizer to a field every three or even four years.

So, the decision on whether to buy fertilizer, or, perhaps more appropriately, how much fertilizer to buy, is influenced by how much disposable income the farmer has available to spend.

For example, when corn prices are high, the farmer gets more money for their harvest and thus has more money to reinvest in next year's fertilizer application.

Get to the point

Last Monday, corn prices "surged" more than 2% (relatively speaking) to settle above US\$4 bushel for the first time in 13 months.

The rise in corn prices was attributed to supply concerns in the face of a major drought and rising temperatures in the Great Plains region.

This is line with the trend of higher wheat prices, which have risen sharply, over 40%, in just a little over a month.

A major drought that could limit this year's corn and wheat harvest would sharply tighten supply and increase realized prices for the grains.

This, in turn, would put more money in the pockets of farmers, who would then have more disposable income to spend on next year's fertilizer application — putting more money in the pockets of Potash Corp.

But it's not just Potash Corp.

Shares of Potash Corp. rose 5.2% in the wake of the news of higher corn prices, but the breakout wasn't just limited to shares of the Saskatchewan miner.

Shares of **Agrium Inc.** (TSX:AGU)(NYSE:AGU) were up 5.5% on Monday, as were the shares of **CF Industries Holdings, Inc.** ([NYSE:CF](#)), up for a 6.5% gain, and **Mosaic Co** ([NYSE:MOS](#)) rounded out the group with a 5.3% increase.

Time to buy?

The breakout comes at an opportune time as the shares of Potash Corp. were already near all-time lows following a commodity crisis that has plagued resource companies dating back to 2011.

Without much downside remaining, are you willing to be Foolish?

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