



Rabobank

# Rabobank Fertiliser Quarterly

## Trends and Outlook for International Markets

### Rabobank International

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**Rabobank expects the pace of global fertiliser demand to pick up through Q4 2012. Farmers will be looking to maximise yields and take advantage of favourable agricultural commodity prices. Key planting programmes are approaching in Asia, the Americas and Europe. A pick-up in demand will fuel international trading activity. However, the future direction and strength of any movement across the nutrient complex could be tempered by a number of supply factors. Inventory loads are adequate in some key markets, resulting in less urgent purchasing, while China will close its low export tax windows for phosphate and urea, affecting export availability. Attention is heavily focussed on the US in the fallout of the drought. US fertiliser demand will be a key factor in the coming autumn and spring application windows, given favourable crop economics. The market balance will be helped by extra capacity coming on-stream and plant restarts from scheduled maintenance. Overall market fundamentals suggest global fertiliser prices will remain relatively steady through Q4 2012; but with some upside potential.**

### Overview

Global fertiliser markets emerged from a lethargic Q3 2012 trading period. Global fertiliser markets were relatively weak. Purchasing in India and Pakistan was cautious, culminating in weaker trading activity across Asia. From a supply perspective, China's low export tax window for phosphate and urea remained open in Q3 2012, helping global supplies. However, production cutbacks in some regions, in a bid to better match supply and demand, combined to help keep markets relatively balanced.

As the quarter progressed, global markets began to digest the impact and severity of the US drought. Markets watched as global grain and oilseed prices skyrocketed.

Overall, price movements were mixed across the fertiliser complex. In comparison to the previous quarter, global prices for urea products are 10%-13% softer, while prices for potash and phosphate remain relatively unchanged. Compared to last year, global urea prices are around 25% below and phosphate prices 10% below the highs of Q3 2011. Global potash prices have remained firm and potash was the only nutrient to register a gain, rising 10% (see Figure 1). All global nutrient prices remain well short of the historic highs witnessed in 2008.

Figure 1: Global benchmark fertiliser prices, Q3 2011-Q4 2011

USD/tonne FOB						
Nutrient	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Urea	520	460	410	450	392	↗
DAP	635	600	517	570	570	↗
MOP	445	445	505	505	505	→

Reported prices at the end of each quarter  
 Prilled urea (Black Sea)  
 DAP (US Gulf export)  
 Granular potash (Vancouver)

Source: Bloomberg, Rabobank, 2012

Across the agricultural commodity complex, macroeconomic pressures—which have been overhanging global markets for so long—took a backseat through Q3 and attention quickly shifted to the severity of the US drought. The severity of the drought dragged global grain and oilseed prices significantly higher over the quarter. In the wake of rallying agricultural commodity prices, fertiliser activity began to pick up as buyers were encouraged to step back into the market.

Looking back, sluggish demand for fertiliser in India (and to a lesser degree Pakistan) was a common feature across the fertiliser complex. For example, there was a sharp decline in demand through Q3 2012, a result of reduced subsidies, lower rainfall during the peak sowing period and the depreciation of the rupee, all leading to a sharp drop in imports of DAP and MOP.

Looking ahead into Q4 2012, global fertiliser demand should benefit from elevated purchasing power of farmers due to higher agricultural commodity prices. In particular, crop farmers will be seeking to increase crop production to benefit from higher crop prices and will have improved cashflows for farm input expenditure to increase yields.

Attention is squarely fixed on the approaching Latin American Safrinha crop planting programme. These crops coupled with the first crop being planted now are very important to helping restore the global balance of grain and oilseed markets. Fuelling the likelihood of a strong planting programme is the weather outlook. According to the latest indicators, El Niño weather patterns are strengthening, meaning on average higher summer rainfall to Argentina and southern Brazil. Farmers in Brazil's grain belt began

planting after early showers set the scene for what are expected to be bumper corn and record soybean crops. The latest estimates suggest Brazil will plant 27.1 million hectares of soybeans and 8.5 million hectares of corn in the first season, a 10 percent and 12 percent increase, respectively.

Corn planting is starting in Argentina and recent showers across the farm belt bode well for planting conditions. Argentina also looks poised to produce record corn and soybean crops in the upcoming 2012/13 season, with the latest forecasts for a 19.5 million hectare soybean planting, complimented by a large corn planting.

From a fertiliser supply perspective, markets are wary that low export tax windows will close for phosphate and urea exports from China, reducing export availability. For phosphates this will come at the end of September and for urea at the end of October. Also, plant restarts and additional product from new capacity are due to come on-stream, but could be subject to delays.

### All eyes on fallout from US drought

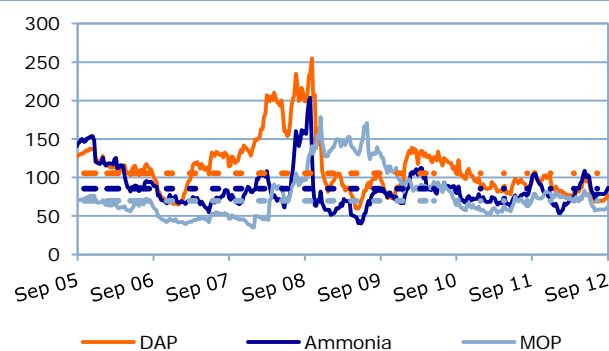
The US drought will go down as one of the most severe in the past century. The impact on crop yields has been significant, with corn yields projected to fall to under 123 bushels per acre, which is 25% below the previous record.

Given the severity of the drought, the fallout looks set to drive global fertiliser markets for some time. Currently, there is much uncertainty around US farmers' farm inputs purchasing decisions for fall application and beyond. Many farmers are facing a significant loss of income, and are instead relying on crop insurance revenue. Also, many farmers are still battling poor moisture conditions.

Looking further afield to the 2013 planting season, farmers are expected to plant another bumper corn crop as they look to maximise acreage given the favourable crop economics. Assuming a return to more normal moisture conditions, Rabobank anticipates that US demand for fertiliser will be strong in Q1 and Q2 2013. This is because US corn growers have the potential to absorb higher fertiliser prices (see Figure 2). Given this expected rush of demand and low inventory levels, there is mounting concerns about the possibility of logistical bottlenecks emerging in 2013. The concern is that the Mississippi River water levels remain low, meaning challenges in delivering product from NOLA to the end markets in the Midwest could emerge.

Figure 2: Fertiliser-to-corn price ratios, and ratio averages, Sep 2005-Sep 2012

Fertiliser price ratio to bushel price



Source: Bloomberg, Rabobank, 2012

### Regional roundup

In India, weak domestic consumption largely as a result of rainfall shortages through July and August have had a significant impact

on production of the Kharif crop; causing demand destruction for fertilisers. Across India, plantings for the Kharif season were down 5.3% in 2012/13 according to Centre for Monitoring Indian Economy. As a result of the demand destruction, India has a large holding of phosphate (DAP) and potassium (MOP). Attention is now turned to the forthcoming Rabi (winter sowing) season. Rainfall has improved in recent weeks, which should be beneficial for the upcoming Rabi crop. However, with sufficient stocks to meet requirements, restocking demand might be pushed out to Q1 2013.

In neighbouring Pakistan, a similar situation has occurred where weak demand for use in the Kharif crop has resulted in a build-up of stocks for the Rabi season; requiring less imports in Q4 2012.

In China, the low export tax windows for phosphate and urea will close during Q4 2012. Once shut, this will effectively take a low price supplier out of the market. Rising production costs for phosphate have been combated by an oversupply in the local market, keeping a lid on domestic prices.

Across the Middle East and North Africa (MENA) region, more capacity is expected to come on-stream during Q4 2012 and Q1 2013 especially for urea. The new supply will help alleviate any supply shortages and act as a price ceiling in the market.

In Europe, buyer activity is slowly improving. High agricultural commodity pricing and a stabilising euro (against the US dollar) are supporting fertiliser demand. However, purchases have been partly offset by droughts in central Europe and a poor growing season in northwest Europe.

Trading activity in South America will intensify in the coming months. Pipelines will need filling for the Safrinha crop, with farmers expected to increase acreage planted for the winter Safrinha corn crop.

In Oceania, all eyes are on the development of an El Niño event and its impact on the approaching importing fertiliser season. Usually, El Niño means drought like conditions in wheat growing regions on the east coast of Australia. ABARES forecasts the area planted to summer crops (cotton, sorghum and rice) in Australia to rise 6% (reaching 1.7 million hectares).

### Outlook

Looking ahead, Rabobank expects global grain and oilseed prices will need to be sustained at high levels over the next 12 months to 24 months in order to reduce demand (see Figure 3). Very firm fundamentals across the agricultural commodity complex in Q4 and into 2013 will support farmers to plant maximum acreage, acting as a stimulus to strong fertiliser demand. Global weather risks remain. Intensifying concerns in Russia, India and Australia could further impact global crops.

Firm fertiliser demand is expected to keep global fertiliser markets relatively balanced. Strong soybean prices will support phosphate demand and high corn prices will drive urea demand. However, strong demand in key regions will be matched by an improvement in global supplies as capacity additions/restarts come on-stream. Overall, there appears to be more upside potential to global fertiliser market than downside risk, with the exception of potash.

On the macroeconomic front, all efforts are continuing to be made to re-ignite advanced economies. While a further deterioration in conditions could again take centre stage and negatively impact agricultural commodity markets, it does seem unlikely to occur

during Q4 2012. While not decoupled from the general macroeconomic situation, at least in the short-term, bullish fundamentals will drive agricultural commodity markets.

Figure 3: Quarterly agricultural commodity prices, Q1 2012-Q2 2013f

	Unit	Q1 2012	Q2 2012	Q3 2012 (f)	Q4 2012 (f)	Q1 2013 (f)	Q2 2013 (f)
Wheat, CBOT	USc/bu	643	642	870	890	875	750
Wheat, Matif	EUR/tonne	210	212	260	266	272	260
Corn	USc/bu	641	617	785	775	750	700
Soybeans	USc/bu	1,272	1,426	1,680	1,650	1,600	1,450
Sugar	USc/bu	24.6	21.1	21.0	19.5	19.0	19.0
Cotton	USc/bu	92.7	80.9	73	65	65	65

Source: Rabobank, Bloomberg, 2012

### Key downside influences

There is an continuous trickle of new capacity additions due in the coming months. Also, existing plants could lift utilisation rates. Any new product to hit the global market will impact the global balance and could alleviate pricing pressure.

In Pakistan, ongoing gas curtailments continue to negatively impact local urea production, requiring imports to adequately manage demand. However, additional production could be aided by a restoration of gas supplies, which will help build local supply.

Globally, there could be reduced demand for fertiliser from farmers exposed to rapidly rising feed costs. Animal protein and dairy farmers are facing steep rises in feed costs and might need to adjust cost structures, which could involve less fertiliser application.

Further upward pressure on costs of raw materials (such as ammonia) for producing fertiliser could manifest into elevated end product pricing and result in some demand destruction.

### Key upside influences

A late flurry of trading activity in Q4 2012 in key markets has the potential to underpin market sentiment and provide stronger than expected price momentum.

A further strengthening across the agricultural commodity complex would provide further incentive for farmers to maximise fertiliser application to ensure the largest possible crop. Also, more favourable crop economics will improve farmers' ability to pay more for fertilisers.

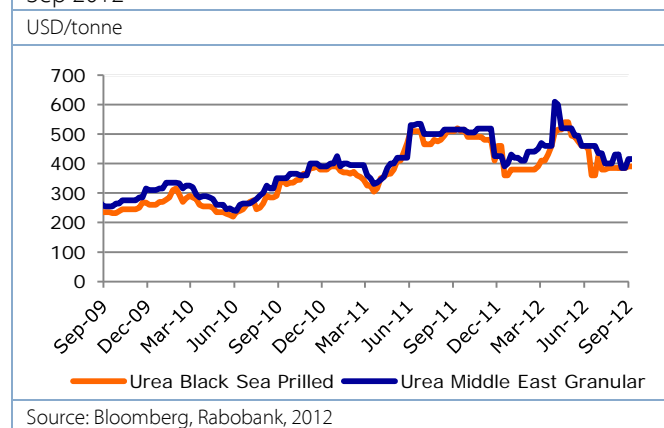
A late monsoon has already caused demand destruction in India for the Kharif season. As a result, India has sufficient stocks of DAP and MOP for the forthcoming Rabi (winter sowing) season. However, the late revival of monsoons could rekindle hopes of strong demand and may trigger a quicker than expected run down in inventories. This would subsequently generate a need to restock. However, the upside is skewed towards urea due to the policy driven distortion in demand.

Global manufacturers will continue to monitor market developments and have shown a willingness to adjust production schedules to keep markets in balance. Manufacturers will continue to adjust production scheduling in an attempt to keep markets balanced.

## Urea

Through Q3 2012, global urea markets remained under pressure due to lacklustre demand and an ample supply—helped by the low export tax window being open in China. The spread between prilled and granular prices continued to widen, averaging USD 36/tonne through Q3, which compares to a USD 19/tonne average for Q2 2012 (see Figure 4). Looking at the dynamics more closely, prilled urea markets were under the most pressure while patches of solid demand from the US supported granular prices. US barge markets received some support in the later stages of Q3 as agricultural commodity prices jumped due to severe drought across the US Corn Belt.

Figure 4: Global benchmark price of urea, FOB, Sep 2009-Sep 2012



### US fall application a bright spot in the urea market and important wildcard to monitor

In the US, fall demand is expected to be strong as farmers are stimulated to maximise yield and acreage for an upcoming winter wheat crop with an expected increase of 1.3 million acres over last year. Fall application in the US began earlier than normal this year; helped by relieving rains in September.

The risks of logistical constraints, due to the closure of the Mississippi River in mid-October, remain a worry for the market. Even though supply via rail, road and the Arkansas River can facilitate inland product movement; this would result in higher transportation costs translating to higher retail prices.

Additionally, fertiliser supply chains in the Northern Hemisphere are carrying low inventories, and the need to refill pipelines in a timely manner for the expected robust fall application could prove challenging.

The potentially sizable expansion of acreage in US winter and spring planting is capable of supporting fall fertiliser demand. According to the latest figures, 6.5 million acres enrolled in the Conservation Reserve Program (CRP) expire in September of 2012. Over 2 million acres of the expiring CRP acres are scattered across the wheat states of Kansas, South Dakota, North Dakota and Colorado and have the potential to be added to the wheat programme. Based on historical trends (2010 and 2011)—conservatively, the US could import anywhere between 1.3 million-1.8 million tonnes of urea in Q4 2012, about 13% to 18% of global import demand in Q4. Based on the expectation of record acreage planting, we believe imports will be more skewed towards the upside.

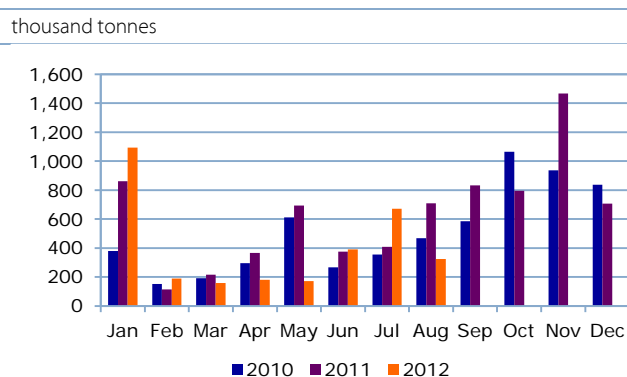
However, US farmers remain in wait and see mode, making it difficult to predict crop mix and timing of demand. Crop insurance

payment delays may hamper demand and distributors are not willing to build up inventory until there is clarity on farmer demand. As we pointed out in our 'Finding Fertile Ground' Industry Note, unprecedented price volatility in fertiliser prices and uncertainty on demand has resulted in a relatively empty supply chain coupled with a shorter trading cycle that can trigger short-term price spikes on lack of availability. With the memories of massive stock write-downs in 2009 fresh in their minds, wholesalers are unwilling to stock up more than around 20% of the expected demand. This delay in stockpiling across the supply chain could lead to potential logistical bottlenecks when the demand actually picks up, resulting in price upside. Timely fall application of nitrogen should therefore work in farmers' favour by avoiding logistical constraints in moving massive quantities. Timing will be critical in the nitrogen market, with November being a key month for price development.

Demand from India will also be an important factor in supporting prices in the next quarter. India's imports for the period January-August 2012 were down 15% relative to the same period last year with importers preferring to run down existing inventories (see Figure 5). The latest figures show stocks have declined 24% to 172,000 tonnes as of August, relative to last year, pointing to the need for imports in the coming quarter. A delayed and poor monsoon reduced demand for the Kharif season crops. We expect demand for urea for application through the Rabi season will compensate for some of the loss.

Indian buyers are expected to import around 3 million tonnes of urea for the Rabi season. Of this, around 1.7 million tonnes has already been secured through latest tenders from MMTC, STC and IPL. Overall, Rabi consumption is expected to be marginally above last year's level at 16.1 million tonnes. Another important factor to watch is the possibility of India to ban urea imports from Iran; which if it happens will bode well for the exporters from MENA and FSU in price negotiations for ensuing imports.

Figure 5: India's urea import volume, 2010-2012

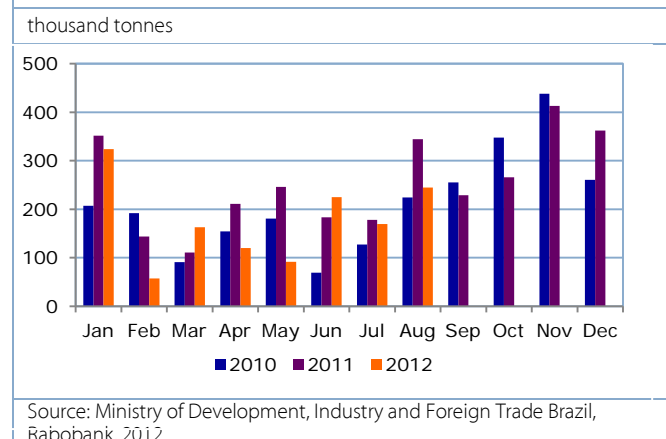


Source: The Fertiliser Association of India, Rabobank, 2012

Another country expected to fuel global demand in Q4 2012 is Brazil. The latest figures show Brazil recorded low import volumes of urea in the January to August period; with import volumes down 21% to 1.39 million tonnes (see Figure 6). This decline in imports compounded with an almost 1 million hectare increase in corn acreage in the first crop implies there is pent up demand in Brazil for urea and inventory levels need to be replenished for the approaching Safrinha corn crop. The urgency for the inventory build-up is limited by the fact that much of the Safrinha corn is planted on soybean acres that are already well supplied with nitrogen. In 2011, Brazil imported just over 1 million tonnes of urea

in Q4, and the expectation is that the imports will at least match that level in Q4 2012.

Figure 6: Brazil urea imports, 2010-2012



Source: Ministry of Development, Industry and Foreign Trade Brazil, Rabobank, 2012

Firm demand from Pakistan and Europe is also expected in Q4. However, the volumes required by these markets are not enough to drive prices significantly higher. Nevertheless, buying activity in these markets will provide some positive sentiment for the market.

**Additional urea supply will provide a ceiling to prices**

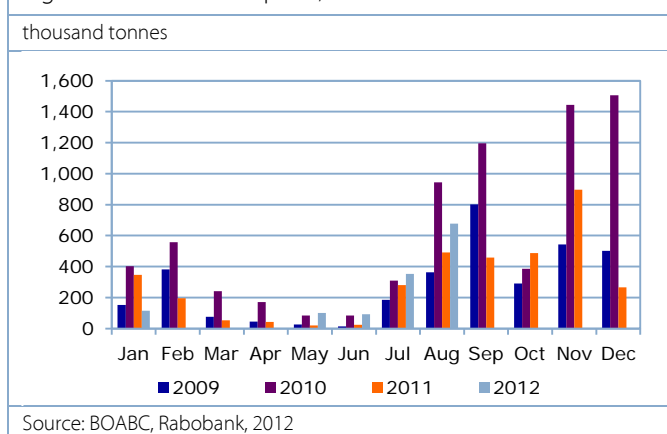
All eyes remain on China's ability to take price cuts as coal feedstock price continues to decline, hence softening urea production costs. Port inventories in China were estimated to be at 900,000 tonnes in August as inland flow of product to ports matches export volumes on weak domestic demand.

Nevertheless, China's 2012 exports of urea between January-August 2012 reached 1.34 million tonnes; down 8% from the same period in 2011 (see Figure 7). Chinese export availability will tighten post October when the low export tax window closes; replaced with a 110% export tax regime.

Furthermore, after months of delay, cargoes from the Sorfert Algeria plant are expected to hit the market in Q4 2012 pending export license availability. This additional supply coupled with product from the new Qafco VI plant will add 2.5 million tonnes of annual production capacity to the market.

However, news on delay in commissioning any of these plants as witnessed in the previous months could provide an upside to urea prices. Absence of any delays to the new plants and the restarting of the MOPCO plant in Egypt (635,000 tonnes annual capacity) and the Lifeco plant in Libya (940,000 tonnes annual capacity) will provide supply support and help put a ceiling on the market.

Figure 7: China urea exports, 2009-2012



### Outlook for urea

The outlook for global urea markets through Q4 2012 is mixed. However, there is more potential upside for global urea markets than downside risks. On one side, demand from the US, India and Brazil will be relatively active and will provide support for the market. European demand is expected to gradually improve. US drought and the subsequent strong rally in corn prices look set to drive and support the global urea markets well into 2013.

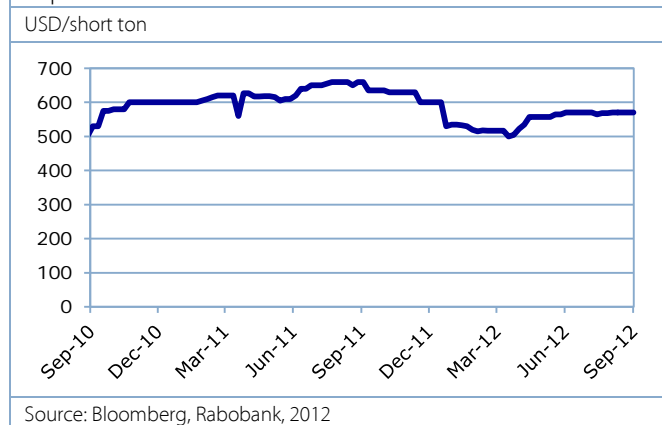
Counteracting against the improved demand, additional supply at a lower cost will gradually be available from the from Middle East and North Africa (MENA) region. However, planned turnarounds in Russia and Ukraine are expected to partially balance out the additional export availability from Algeria and Qatar. Also, global supply will decline due to China's exit from the export market post October. Additionally, delays in exports from the new capacity or supply disruption due civil unrest in MENA could lead to a temporary upswing in the market.

Overall, global urea markets are expected to remain reasonably balanced, which implies limited price upside through Q4 2012 despite bullish fundamentals across the agricultural commodity complex. Rabobank does expect improved demand for prilled urea from India and Brazil and a temporary plant shutdown in Russia and Ukraine (prilled suppliers), which coupled with new granular urea supply from MENA should narrow the spread between prilled and granular urea.

### Phosphate

During Q3 2012, global prices for most phosphate products remained relatively stable at elevated levels; supported by balanced supply and demand fundamentals (see Figure 8). The global phosphate market was characterised by price being largely range-bound. Adverse weather in India, Pakistan and the US contributed to lacklustre trading activity. As a result of the subdued demand, global phosphate producers were forced to accumulate inventories, cut back on production or push surplus product into other markets, such as South East Asia.

Figure 8: Global benchmark price of DAP, FOB, Sep-2010-Sep 2012

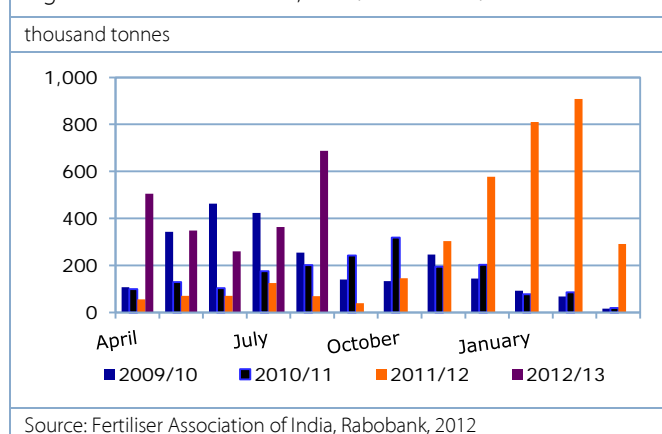


India's poor start to the monsoon created some uncertainty in the market. As a result, many buyers deferred purchases. Local farmers are battling high retail prices for phosphates, over four times the price of urea, and are holding back from major phosphate purchases. In many instances, farmers purchased nitrogen fertilisers, such as urea, as the main priority for crop productivity. This distortion in demand is primarily driven by the current subsidy structure that favours urea prices.

With reduced sales of phosphate products in India in Q3, inventory levels for phosphates have remained very high but have started to be drawn down in recent months (see Figure 9).

For example, in June 2012, Indian DAP stocks stood at 688,000 tonnes; almost nine times the volume held at the same time the previous year. The high inventory loads has meant that farmers in key demand regions have seen no real urgency in negotiating new phosphate fertiliser orders.

Figure 9: India DAP stocks, 2009/10 to 2012/13



South America is usually a large import region for phosphate fertilisers in Q3. However, imports were slow during the period as regional supply chains carried sufficient inventory loads. Global shipping costs for bulk fertiliser are being weighed down by new capacity additions of dry bulk vessels and sluggish commodity demand. This means global freight rates are back at the extremely low levels experienced in early 2009. With lower shipping costs and a relatively fast turn-around for new orders, there are no signs of any panic buying in the short term.

### Phosphate supply to remain in balance with demand

Recent industry developments show global manufacturers of phosphate products such as DAP taking a more flexible approach

to operations and cutting back on production when market conditions are not favourable. This is particularly the case in regions such as North Africa. This strategy is in response to lacklustre demand and the opportunity to complete maintenance work during suboptimal demand periods.

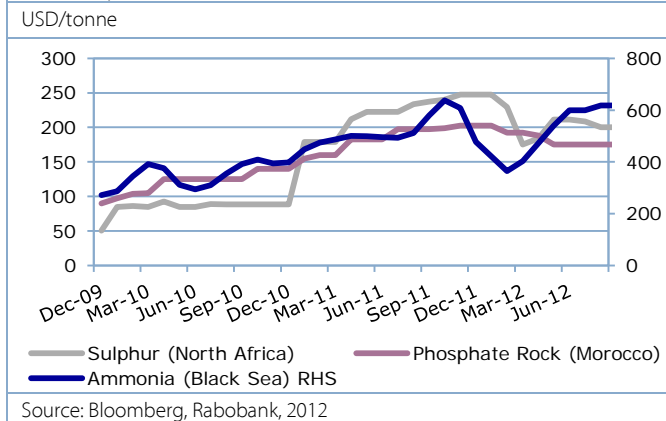
In other regions such as China, operating capacity levels through Q3 remained high. For major DAP manufacturers in China, operating rates were close to 100% in August. China's four month low-tax export window that runs from June to September had producers working towards pre-orders or preparing for international sales opportunities. However, the export opportunities did not play out as planned with some important tenders to markets, such as India, being cancelled. With the slower export pace for Chinese DAP this year, it is likely that total exports in 2012 will be around 3 million tonnes, which is about 1 million tonnes below China's 2011 export volumes.

Producers are now focusing on opportunities in the North/South America and Europe. Demand for phosphate fertilisers is picking up in the US, which has the domestic market providing a premium to export markets. Additionally, low US phosphate inventories are limiting availability for the export market.

With China phosphate exporters likely to withdraw from the international scene once the high-tax window starts again on October 1, DAP exporters from the Middle East and North Africa (MENA) as well as eastern Europe will look to the America's and other European markets to meet autumn fertiliser application requirements. Although both the US and China will be primarily out of the export scene, the pressure on the supply of DAP is not expected to be high. DAP producers in MENA and eastern Europe have more than enough capacity to meet expected demand for Q4.

The cost of raw materials for phosphate production remains elevated (see Figure 10). The elevated prices for phosphate rock, ammonia and sulphur will maintain pressure on non-integrated/marginal producers. In the short term, raw material prices will be subject to additional cost pressures, particularly ammonia, where unexpected supply constraints and robust demand is underpinning global prices. Reduced ammonia surplus from Qafco, because of technical problems and less availability from Sabic, has global buyers struggling to find ammonia. However, leading into Q1 2013, the raw material costs of both ammonia and sulphur are expected to soften.

Figure 10: Monthly average raw material costs for DAP, Jan 2010-Sep 2012



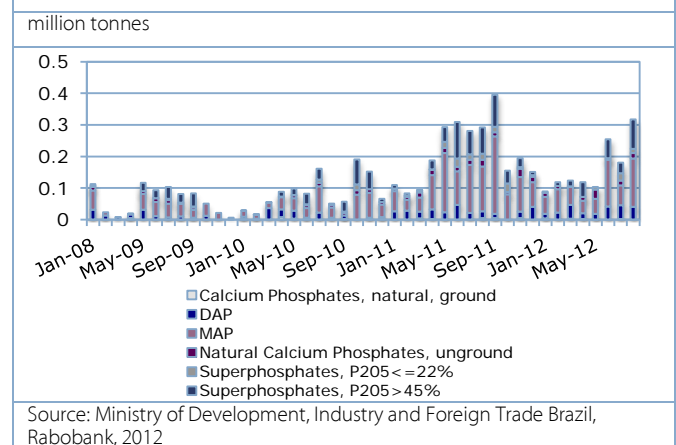
### Demand from the Americas will drive phosphate markets

The North and South American regions will play a key role for the phosphate market in Q4. The US market is filling requirements for winter crops and beginning ground preparation for the 2013 spring planting season. Although high crop prices are supportive for high application rates, there remains uncertainty on how much land impacted by drought will be fertilised or committed for planting at this stage. However, the just in time buying that is prevalent in the market is supportive for a short price rally in the event of logistical bottlenecks and stalemate negotiations between end users and distributors.

The pace of South America's demand will also be a key factor in Q4 2012 as orders and purchases have been deferred along the supply chain in the hopes of lower prices (see Figure 11). Between January-July 2012, Brazil phosphate imports totalled 1.358 million tonnes; down 31% on the same period last year.

Although some price softening did eventuate for end users who deferred their orders for phosphate fertiliser, the lengthy delays in import orders in general does present risks for some farming locations being short of fertiliser at the ideal application time. October is expected to be a very busy month for imports of phosphates for South America as the window for meeting the application needs is tight.

Figure 11: Brazil phosphate imports, Jan 2008-Aug 2012



Finally, India's import purchases for the Rabi season will remain a strong influence on global phosphate markets. High inventory levels will reduce the need for large import volumes; and final demand will depend on the improvement in seasonal conditions. Looking forward, it is expected that wheat planting in October and November will be a key source of demand, which should pull pent-up product through the domestic supply chains. As we see the new shipments of DAP reach retail outlets, it is expected that prices for phosphate fertilisers at the farm level will increase, which will add further pressure on the phosphate demand outlook (on-farm).

### Outlook for phosphate

The outlook for global phosphate markets looks fairly balanced. With the increase in fertiliser demand in South America driven by large planting expectations on the back of record high grain and oilseed prices, most phosphate product prices will remain elevated in Q4 2012. Global suppliers will need to ramp up production to fill spot market orders. A continuation of relatively high raw material costs for phosphates will sustain upward pressure on end-product prices.

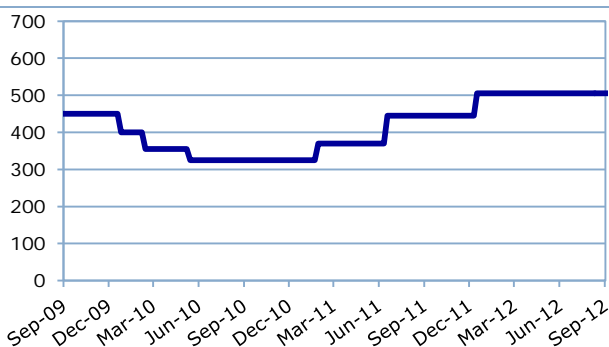
China's export business is now limited as the lower export tax window closed on September 30, the export tax rate reverts to 110% October 1. Overall, Q4 (particularly October and early November) will be a relatively busy period for phosphate trade and the flurry of activity is expected to offer some upside to global phosphate markets. There are also some downside price influences on phosphate prices to keep in mind. The available export supply from the major production regions of MENA and eastern Europe will increase. This supply, once ramped-up, will be enough to prevent any major price rally for the wider phosphate complex. Furthermore, once the flurry of activity passes and pipelines are refilled, global phosphate markets are expected to stabilise with some raw material cost relief leading into Q1 2013.

## Potash

Over Q3, the international potash market remained relatively stable. During Q3 2012, India, one of the bigger potash consumers, maintained a low rate of imports. This factor was offset by elevated agricultural commodity prices that stimulated the demand in other key markets, such as Brazil and China. Inventory control measures taken by the potash industry were another factor that provided some support for potash prices during the last three months.

Figure 12: Global benchmark price of MOP, FOB, Sep 2009-Sep 2012

USD/tonne



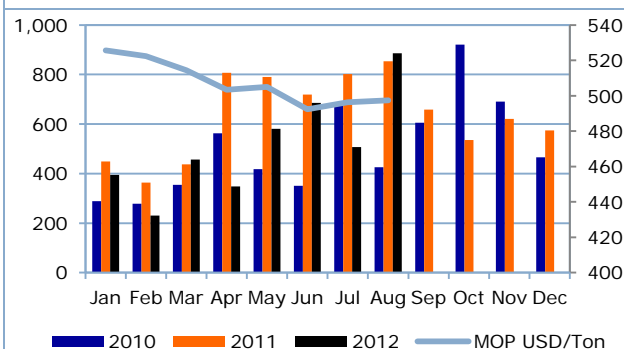
Source: Rabobank, Bloomberg, 2012

In Brazil, following the annual seasonality, imports have been increasing during Q3 due to the immediacy of the next planting season. Brazil imported more than 850,000 tonnes of potash in August, which is 3.8% higher than the registered volume in the same month of the previous year. However, on a year-to-date basis, Brazilian imports are just over 4 million tonnes, some 22% lower than last year.

Given the large stocks carried over from 2011, potash imports in Brazil were delayed this year. Against this backdrop, Brazilian international purchases are expected to increase in the next months in order to build some pre-stocking for the Safrinha corn season, predicted to start between January and February 2013. Despite the increasing negotiated volumes during the last three months, some business was concluded at prices around USD 490/tonne, which is the lowest value since the beginning of the year (see Figure 13). This shows that the low demand in India and still high inventories in North America have been causing some weakness on the international potash market.

Figure 13: Brazil potash imports, CY 2010-2012

thousand tonnes



Source: Ministry of Development, Industry and Foreign Trade Brazil, Rabobank, 2012

### Weak potash demand expected for India and China

In India, domestic demand still remains considerably weak. This has been reflected in lower import volumes, further adding pricing pressure for potash. Indian farmers' purchases have been affected by a number of factors. A subsidy change and a devaluation of the local currency (against the US dollar) have led to a near doubling in farmgate prices.

The delayed monsoon also affected purchases during Q3 2012. As one of the largest consumers of potash in the world, India's market developments will continue to provide a benchmark for global markets. Prevailing high internal prices reduce the expectation of a recovery in potash imports by India for Q4. Shipments of approximately 6 million tonnes of MOP purchased at the end of last year continue to land at Indian ports. Nevertheless, market expectations suggest that the local market will not reach this volume in 2012 due to the weak demand by Indian growers.

China is also showing signs of weakness in domestic consumption. Higher domestic stocks are causing the deterioration of internal prices. In September, ex-warehouse prices were at RMB 2,950/tonne; a drop of 11.5% from the same month in 2011. This was also the lowest price witnessed since April 2011.

Between January-August, Chinese imports of potash surpassed 5.2 million tonnes, which represented growth of 32% on the same period last year. However, domestic demand has not responded to the falling prices and local stockpiles have subsequently been growing. For this reason, there is no expectation for new supply contracts for Q4 2012; with the possibility that the next round of negotiations will be delayed until early 2013 when pipelines need refilling.

During the whole year, US imports stayed below 2011 volumes. Between January-July 2012, US MOP imports reached 5.8 million tonnes, a volume 31% lower in comparison to the same period in 2011. North American buyers are expected to remain cautious about potash purchases in the coming months as all the uncertainty regarding the international markets prevails. However, imports could pick up towards the end of the year if there is a better understand of the global demand situation.

### High potash inventories and announcements of production cuts continue

Even with weak global demand, stocks held by North American producers have been decreasing during Q3 2012. The market has seen many producers reduce output. However, despite these

efforts, North America inventories in August 2012 still stood at 2.4 million tonnes, which is a 25.3% higher in comparison to the same month in 2011. Against this backdrop, part of the sector has announced further intentions to cut output in order to better control inventories. This strategy would work as a factor to avoid further pricing pressure, even with the low demand scenario expected from India and China during Q4.

### Outlook for potash

With China and India probably on the sidelines, the short term outlook for potash markets suggests possible weakness in global demand during Q4. As a result, Rabobank maintains a slightly negative undertone for potash in volume terms for the last three months of 2012. Expectations of stronger imports in Brazil seem to be the only support mechanism on the demand side. Upcoming Brazilian potash imports will be critical in setting the tone for global markets through Q1 2013, when the demand from the US will probably increase and new supply contracts for China and India could be negotiated.

On the supply side, new production curtailments and inventory control measures have been announced by manufacturers. This strategy will probably avoid any huge price deterioration in the short term. Furthermore, any renewed demand in the US in Q4 could also provide stronger support for international prices.

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