Fertiliser Market Outlook

February 2016, Issue 2

AGRICULTURE & HORTICULTURE DEVELOPMENT BOARD

Market Overview

Currency volatility and energy prices continue to weigh on fertiliser industry

Weak pricing and uncertainty plagued the global fertiliser industry, at the end of 2015 and into 2016, amidst abundant global supply, currency volatility, and falling energy prices.

- Oil prices have recently fallen to their lowest level since 2003, with Brent crude oil dipping below US$30/bbl in January 2016. This most directly affects the nitrogen industry, where production is mainly based on gas and coal, and energy prices, such as oil, gas, and coal prices tend to track one another.
- Depreciation in Russia's Rouble and China's Renminbi against the US dollar in 2015, plus lower energy costs, have made dollar-denominated fertilizer exports more attractive, as production costs have become lower still in dollar terms.
- Whilst Russian exports grew in 2015 as a result, Chinese urea exports were lower year-on-year in the second half of 2015, as a result of weaker international and domestic prices and the removal of industry supportive measures. Nonetheless, Chinese exports were still considerable in 2015 and 2014, weighing on global prices.
- Chinese urea exports to the UK are insignificant, but their impact on the global market is large. Chinese urea producers represent the highest cost "marginal" producers who set the industry's price floor. The concurrent fall in Chinese coal prices has led to the floor dropping, and urea prices falling further.

GBP/t	Calculator:	GBP/kg N
£200/t	AN @ 33.5% has 335 kg N/t	£0.60/kg N
£150/t		£0.45/kg N
£100/t		£0.30/kg N

GBP/t	Calculator:	GBP/kg K_2O
£250/t	MOP @ 60% has 600 kg K_2O/t	£0.42/kg K_2O
£200/t		£0.33/kg K_2O
£150/t		£0.25/kg K_2O

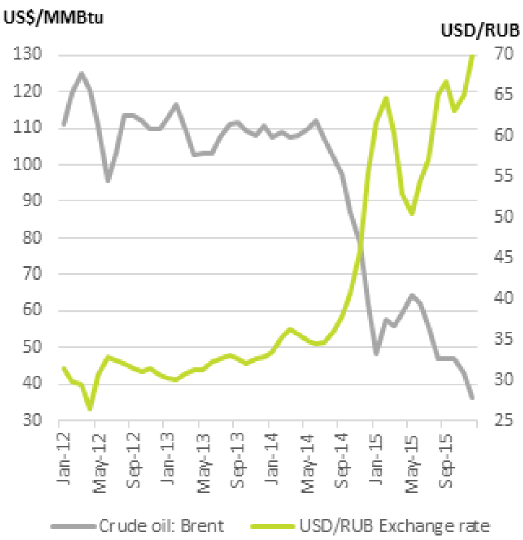
Source: AHDB

insight beyond numbers

Key points

- Global pricing across all nutrients weak.
- Demand lacklustre following holiday period.
- Global oversupply seen across all products.
- Urea prices continue falling with no bottom in sight.
- Possibility of substitution to urea from AN as urea becomes cheaper in nutrient terms.

Russian currency and energy prices



Source: OECD, Integer

insight beyond numbers

Nitrogen

2015 Review

The global nitrogen market felt a large amount of uncertainty in 2015 which can be summarised in three key themes: oversupply, consolidation and a fall in energy costs.

- Overcapacity put pressure on pricing, as the ramp up of new capacity since 2012 continued.
- During periods of market weakness, nitrogen producers find ways of improving their financial standing – often through internal improvements, but the weakness also tends to stimulate industry mergers and acquisitions. The standout M&A development in 2015 was the announcement of a proposed merger between CF Industries and OCI.
- The prices of gas in Europe and coal in China – key metrics influencing production – fell to record lows in 2015, flattening the global nitrogen cost curve and shifting the nitrogen industry floor price down.

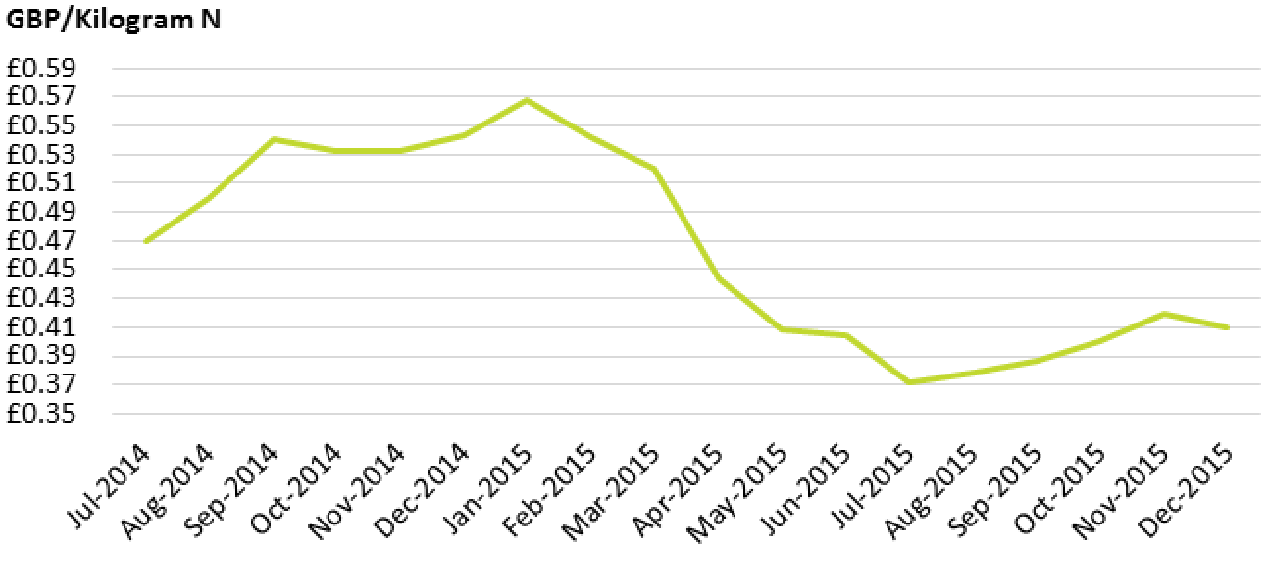
Supply/Demand

Nitrogen demand has remained low over the past few months, with limited activity due to the holiday period. In both the UK and Europe, product is reported to be widely available, with warehouses needing to be cleared before more room is available for imported product.

There may be increased global demand for urea in the coming months, as the Black Sea urea price in terms of N content has continued to fall after reaching parity with AN in September 2015. In Q4 2015 urea averaged 10% cheaper than AN on a per kg N basis, as urea prices have fallen, but AN prices have remained relatively stable.

Prices

International AN pricing rose in Q3 2015, but fell heading into Q1 2016



Source: ICIS Fertilizers

Note: AN = ammonium nitrate. Prices are FOB Black Sea and displayed in GBP per kilogram and in nutrient terms, assuming 33.5% nitrogen. The Black Sea price is an international benchmark price. Prices into the UK will vary from those shown depending on local market conditions and additional freight and taxes.

The prices of nitrogen products have all felt downward pressure in recent months, with general demand weakness, plus oversupply, continuing to drive prices downward with no floor currently in sight. The persistent oversupply of urea has impacted pricing into the New Year, as the Black Sea urea price dropped to a quarterly average of £0.37kg N in Q4, a 5% decrease quarter-on-quarter.

Lacklustre demand for urea is expected to continue, keeping short term pricing weak. Whilst buyers have been reluctant to commit in the expectation of prices moving lower, UK farmers are being cautioned not to leave purchases until the last minute in case of logistical delays.

In contrast, the benchmark price for Black Sea AN saw an increase in the final quarter of 2015, averaging at £0.41kg N.

P Phosphates

2015 Review

The phosphate market ended 2015 on a lull, with buying from key markets disappointing.

- In India, buying in the second half of the year was lacklustre as stocks were at capacity from earlier buying, allowing buyers to refrain from purchases.
- The Brazilian market was negatively affected by economic and political issues, not least a weaker Real, which in turn had a depressing effect on demand for MAP.

Supply/Demand

Demand for phosphates has remained weak globally following the holiday period, with global energy prices and currency devaluations negatively impacting market sentiment. Exports have also been slow, especially out of China, where producers have cut back on output and are reporting weak export demand. In the UK the phosphate market has experienced a lull, with wet and warm weather leaving some farmers unable to apply. There is also ample product availability in the UK, with buyers wary to commit to new orders as pricing is still heading downwards.

Prices

Phosphates pricing has followed the trend of other nutrients, with downward pressure felt through the end of 2015 and into the New Year. Average Q4 2015 prices for DAP (FOB Baltic) rested at £0.65kg P_2O_5, representing a 6% drop quarter-on–quarter over Q3, but flat year-on-year. The fall in the oil price has contributed to declines in the cost of key raw materials (e.g. sulphur and ammonia) for processed phosphate producers. This has boosted producer margins, and means that high inventory levels are unlikely to come down in the short term. It seems likely that phosphates pricing will remain weak in the short term.

K Potash

2015 Review

Potash prices came under significant pressure in 2015.

- There was further weakness in spot pricing towards the end of the year, which was capped by indications in December that certain buyers in India secured a discount of US$15-20 per tonne on annual contract pricing.
- In stark contrast to 2014, the granular MOP market was particularly weak in 2015 on the back of lower demand in the key markets of Brazil and the United States, and competition between suppliers to place tonnes continued, driving prices downward.

Supply/Demand

Demand for potash remains weak, owing to oversupply in the US market, and winter conditions in Europe, leaving the market largely inactive. There is currently some buying interest out of distributors, but demand from farmers in Europe is weak.

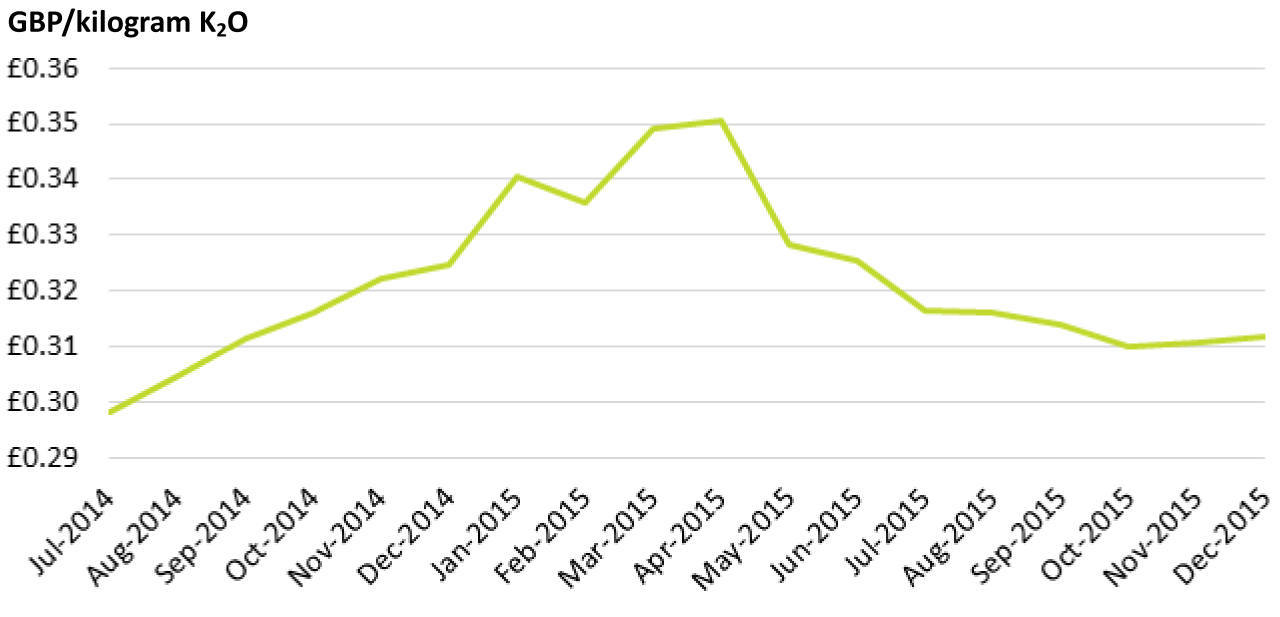
PotashCorp announced the suspension of operations at its New Brunswick mine in Canada in January, citing challenging macroeconomic conditions for its decision. The closure is in line with the potash industry's long-established practice of supply management, as the major potash producers look to stem the fall in prices.

Prices

International potash pricing has remained weak across the board averaging at £0.31kg K_2O in Q4 2015, down slightly from £0.32kg K_2O in Q3. There is limited interest from the global market and it appears that contracts for pricing out of China will be completed in April rather than the first months of the year as is typical.

A rebound in potash demand is expected in 2016, as inventories were significantly drawn down in 2015. Potash prices are however unlikely to see much if any improvement as ample supply and competitive dynamics continue to characterise the market, unless further curtailments are made amongst the industry's major producers.

International MOP pricing remains weak averaging at £0.31 kg K_2O, despite a slight rise at the end of 2015



Source: ICIS Fertilizers

Note: MOP = Muriate of Potash. Prices are FOB Vancouver and displayed in GBP per kilogram and in nutrient terms, assuming 60% K_2O.The Vancouver price is an international benchmark price. Prices into the UK will vary from those shown depending on local market conditions and additional freight and taxes.

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