



## Market Overview

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### Sirius Minerals announces Definitive Feasibility Study (DFS) for North York Moors potash project

On the 17<sup>th</sup> March 2016, Sirius Minerals announced the results of its Definitive Feasibility Study (DFS), which confirms the company's plans for a polyhalite mine located in the North York Moors National Park.

The study outlined a capital expenditure requirement of US\$3.7 billion to enable the initial ramp up in production to 10 million tonnes per year (tpy), with the project being scalable to an ambitious 20 million tpy, subject to Park Authority's approval.

The company has so far signed take or pay agreements with overseas buyers which guarantee the offtake of 3.6 million tpy for the first 5-10 years. The commissioning of the Sirius mine, plus ICL's previously announced plans to expand polyhalite production at its Boulby mine, suggest that in the 2020s UK farmers can look forward to improved availability of polyhalite, which contains potassium, as well as sulphur, magnesium, and calcium.

### European Commission proposes new regulations for organic and waste-based fertilisers

This month the European Commission proposed a new regulation that aims to make organic and waste-based fertilisers more easily accessible throughout the EU's single market. Non-conventional fertilisers are difficult to distribute outside of their country of production under existing regulations which help the movement of traditional mined and chemically produced fertilisers, but do not facilitate the trade of alternative fertilisers. The new regulations will allow producers either: to opt for CE marking of their product based on meeting common EU standards, enabling their free trade across the single market, or; to trade their product based on national standards and mutual recognition within the single market. The measures should boost the use of alternative fertiliser products across the EU.

The proposal also looks to limit the heavy metal content of all fertilisers, but this will mostly impact phosphate fertilisers due to their high level of cadmium. The Commission is hoping to tighten cadmium limits on CE-marked phosphate fertilisers, restricting cadmium content from 60mg/kg to 40mg/kg within three years and 20mg/kg after 12 years. This will most heavily affect producers of inorganic phosphate fertilisers, which have a higher cadmium content.

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### Key points

- Global market remains fundamentally oversupplied across all nutrients
- Downward pressure on pricing across all nutrients as a result of supply gluts
- European demand shows some seasonal uptick, but remains weak
- New UK and EU developments support supply growth in non-conventional fertilisers.



## Nitrogen



### Demand

Nitrogen demand has remained stagnant in recent months, with limited activity seen across all major nitrogen fertilisers despite the application season looming.

There is particularly insignificant demand growth in Europe, where buyers have held off making purchases amidst slower farm activity. Across the continent there are hopes that demand will pick up

in late March/early April, as some purchases may take place once current stocks are depleted.

In the UK, after warnings last issue not to hold off purchasing too long in case of logistical difficulties, we note that in March delivery delays on spot prompt orders have caused some product to arrive late for application. Despite these issues, there has also been sufficient AN supply in the UK to keep downward pressure on pricing.



### Supply

The global market for nitrogen remains in oversupply, with little prospect of change in the coming months.

Despite the excess supply, the recent removal of sanctions in Iran has caused some interest amongst European urea trading companies to start exploring options for trading nitrogen fertiliser from the newly opened market. In the short term, global

oversupply is expected to limit the trading of Iranian urea, but it is still possible that Iranian product may become increasingly visible on the European market long term. Greater supply of Iranian product is likely to exert pressure on other suppliers, given its cost competitiveness, with Iranian prices more in line with those coming out of the Arabian Gulf.



### Prices

Pricing across nitrogen products has remained weak over the last two months, continuing its downward trend. The Black Sea AN price dropped to £0.38/kilo N in February, the lowest since July 2015 as abundant supply continues to weigh on prices.

This is also evident in urea pricing as downward pressure on pricing has continued, with granular urea hitting an average of £0.34/kilo N over the first two months of 2016. There were some slight

indications of a recovery in urea pricing in early February caused by improved demand in the US, but this stalled towards the end of the month and into March due to some weather disruptions.

There is some trade “optimism” about a possible slight recovery heading into April, as the application periods gets underway and the depletion of stocks potentially triggers new purchases.



## Phosphates



### Demand

Demand for phosphate has been weak in 2016 and global inventories remain high, but there has been a slight pick up in buying in March. In Europe, including the UK, there has been limited demand for phosphate fertiliser in recent months, but as application gets underway, fertiliser deliveries have picked up, albeit only moderately. Latin American

demand has also rebounded ahead of a second crop season.

Despite these positive trends, globally it is expected that demand levels will remain lower than previous years due to high inventory levels across regions.

The government of India, a major global importer of phosphate fertilisers, announced a reduction of 13% in the subsidy allocation for both phosphate and potash fertilisers in March. This is seen as a

reaction to low prices and excess inventory. It is likely that this sentiment will be echoed globally, with overall reluctance to complete purchases seen in all regions.



## Supply

Abundant supply of phosphate fertiliser has continued in February and March, with many companies reducing production volumes, in order to curb oversupply and reduce the downward pressure on pricing. This has been seen most

notably by US-based Mosaic, who in early February announced plans to reduce production by 400,000 tonnes in Q1, in view of the poor short term outlook for phosphate fertilisers.



## Prices

The pricing of phosphate products has remained low, with persistent downward pressure caused by the global supply glut.

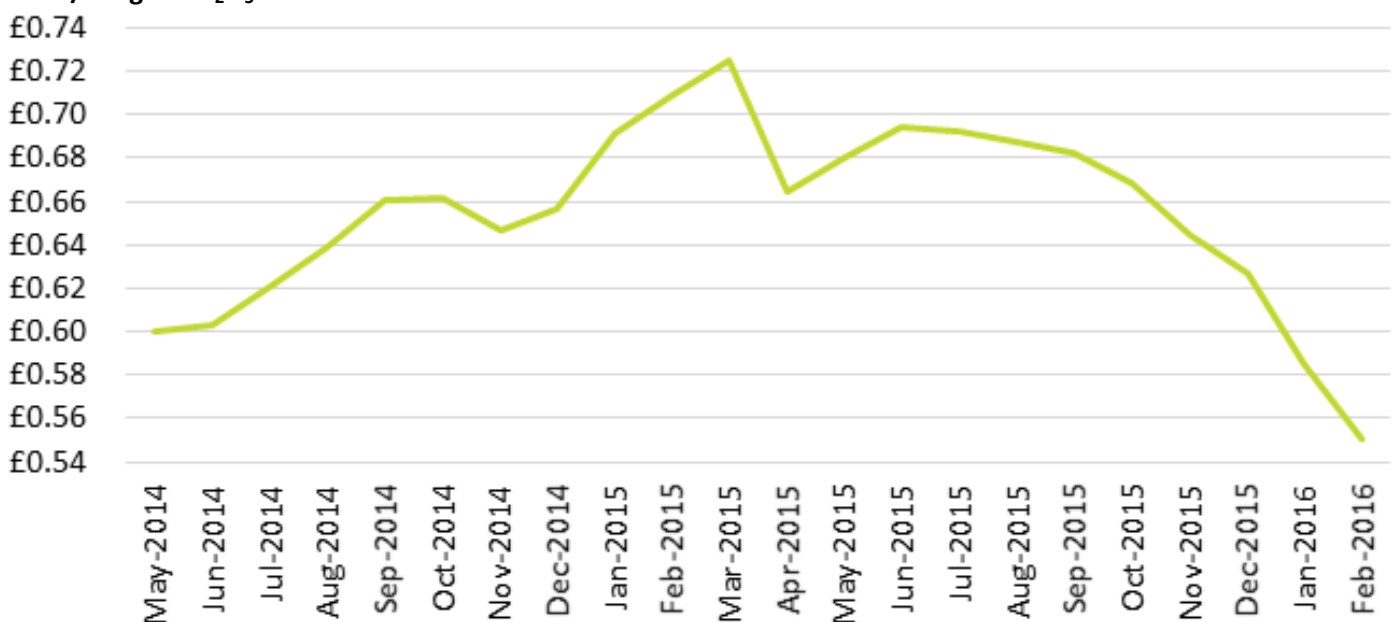
There has been a slight disconnect between eastern and western markets in recent months. Western markets had a slight uptick in pricing in mid-February, although overall February's average DAP price (FOB Baltic) in GBP and P<sub>2</sub>O<sub>5</sub> terms fell

by 6% from January. Meanwhile, pricing in eastern markets continued on a downward trend, partly due to subdued purchases in China due to the Lunar New Year limiting activity.

The reduction of production from producers has yet to move prices upward, but it is possible that over time the limits on supply will aid a recovery in pricing.

### DAP prices have continued to fall hitting £0.55/kilo in February 2016

GBP/Kilogram P<sub>2</sub>O<sub>5</sub>



Source: ICIS Fertilizers

Note: DAP = diammonium phosphate. Prices are FOB Baltic and displayed in GBP per kilogram and in nutrient terms, assuming 46% P<sub>2</sub>O<sub>5</sub>

# Potash

## Demand

Demand for potash has remained limited over the past few months, with no significant source of demand growth seen globally. India's recently announced reduction on the subsidy allocation for potash is also likely to dampen global potash demand.

There was a small amount of demand upswing in Europe at the end of March, but this was limited and is mostly due to the spring application and the prospect of warmer weather in the coming months.

One bright spot for future European potash demand is the planned lifting of EU restrictions on sugar production and exports from 2017. This should encourage greater sugar beet production, which has a large potassium requirement. In February, French sugar group, Tereos, announced plans to raise sugar beet output in 2017 and 2018, in response to the market changes, with more likely to follow suit.

## Supply

Potash supply has been relatively stable in recent months, with no significant production issues to report. It does seem that supply will most likely see year-on-year increases in 2015. Granular MOP is clearly in oversupply, contrasting with the large scale supply shortages noted in 2014.

Following strike action at ICL's Israeli Dead Sea Works in late May the company should be able to recover most of the lost potash sales from the strike period. The flooding of Uralkali's Solikamsk-2 mine in Russia in November 2014 seems to have caused little impact on the market, with the company's overall MOP output during the first half

of 2015 only 30,000 tonnes lower than during the same period in 2014. Expansion is expected at the mine in 2016 with a planned increase in productivity by 0.8 million tpy.

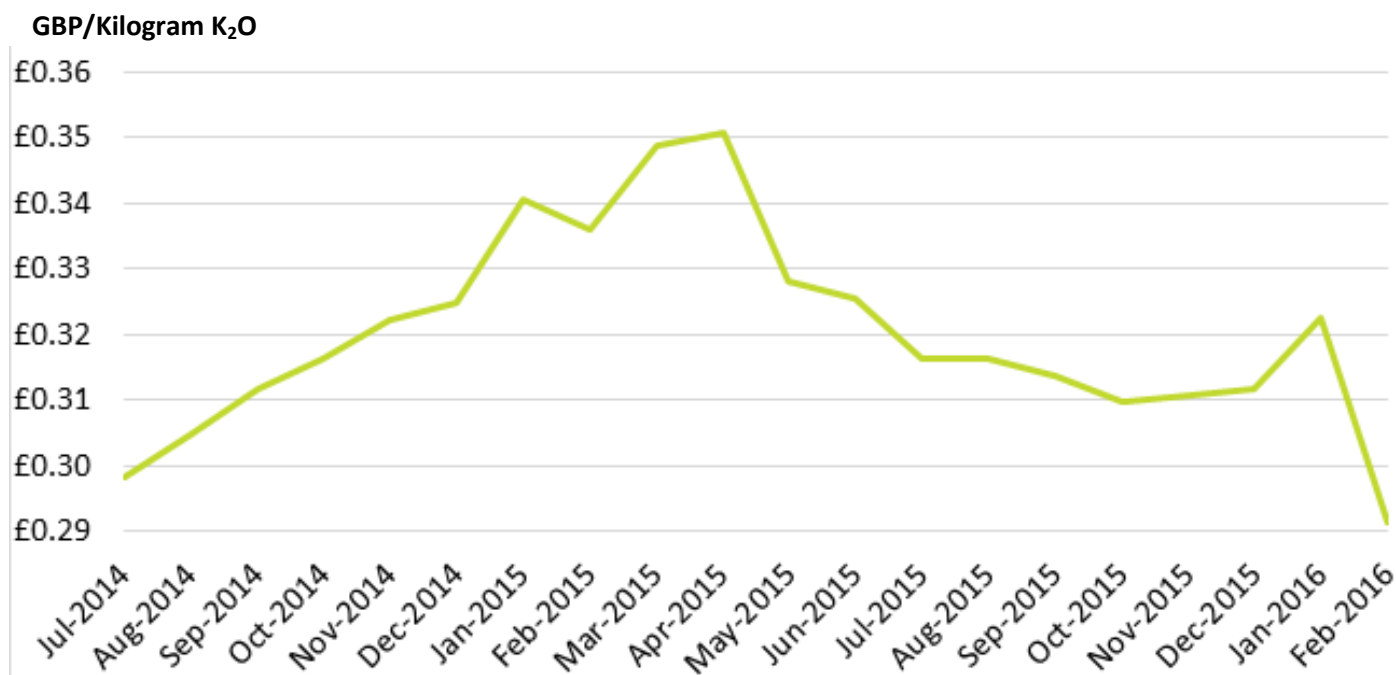
The UK, ICL's Boulby mine has been undergoing significant restructuring in recent months and announced in November 2015 that it is to move away from MOP production due to the expected depletion of potash reserves by 2018. The company hopes to now build up its polysulphate business, which is a different multi-nutrient product that will be mined 150-170 metres below the potash seam.

## Prices

Prices continue to soften in most regions – in September there was further weakening in pricing in Latin and North America, in the Middle East, and in Asia, stemming from slow demand and currency volatility. The average price of MOP in Q3 2015 was £0.32/kg. K which is a 6% decrease

when compared to the average Q2 price of £0.33/kg. K. Prices have continued to decrease into early Q4 2015, with downward pressure expected to remain a feature for the foreseeable future.

## MOP pricing has been in steep decline in 2016, falling to £0.29/kilo in February 2016



Source: ICIS Fertilizers

Note: DAP = diammonium phosphate. Prices are FOB Baltic and displayed in GBP per kilogram and in nutrient terms, assuming 46% P<sub>2</sub>O<sub>5</sub>

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 P
£300/t	MOP @ 42% has 420 kg P <sub>2</sub> O <sub>5</sub> /t	£0.71/kg P
£250/t		£0.60/kg P
£200/t		£0.48/kg P

GBP/t	Calculator:	GBP/kg K <sub>2</sub> O
£300/t	MOP @ 60% has 600 kg K <sub>2</sub> O/t	£0.50/kg K <sub>2</sub> O
£250/t		£0.42/kg K <sub>2</sub> O
£200/t		£0.33/kg K <sub>2</sub> O



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